

CHEMONICS INTERNATIONAL INC.

GENERAL BUSINESS TRADE AND INVESTMENT (GBTI)
INDEFINITE QUANTITY CONTRACT

Contract No. PCE-I-00-98-00015-00

Quarterly Performance Report
July-September 30st, 2003

Submitted to:
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U.S. Agency for International Development
Washington. D.C.

Submitted by:
Chemonics International Inc.

in collaboration with

Crimson Capital Corporation, Inc., International Business Initiatives, IGI Inc., International Law Institute, Innovation Associates, Inc., The Kenan Institute, Prime International, Sigma One, Plexus Consulting Group, Taylor-DeJongh, Inc.

October 31, 2003

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**Chemonics Consortium
Quarterly Performance Monitoring Report
October - December 2002**

***General Business Trade and Investment
Indefinite Quantity Contract (IQC)
PCE-I-00-98-00015-00***

I. TASK ORDERS: PROGRESS, ACTIVITIES, RESULTS

- A. Support to Presidents' Council, TO #804**
Start Date: February 6, 2001
Completion Date: December 31, 2004
Amount of Delivery Order: \$1,583,265.00

**US-Egypt Business Council: REPORT ON ECONOMIC AND TRADE POLICY
DEVELOPMENTS, Third Quarter 2003**

Positive Balance of Payments Numbers

During the 2002/2003 fiscal year Egypt's balance of payments improved as services exports rose. The improvement was particularly strong in the third and fourth quarters of the fiscal year (January-June 2003).

Net services earnings were up sharply, having climbed to \$4.9 billion in the 2002/2003 period, an increase of almost 20% over the 2001/2002 period. The growth in services earnings contributed to a tripling of the current account surplus from \$614 million to \$1.883 billion. The overall balance of payments went from a deficit of \$456.4 million to a surplus of \$546 million.

The strong growth in services exports is attributed primarily to an increase in Suez Canal dues, which rose 23%. Tourism receipts rose 10% over last year although they are still below the pre-September 11th period. Tourism operators reported very high occupancy rates and were optimistic about fall arrivals.

In contrast to services exports, the growth in goods exports was modest. Overall goods exports grew by 15%, led by 32% growth in petroleum exports while non-petroleum exports grew only 6%. Imports increased by only 1.3% as non-petroleum imports grew by 2.8% and petroleum imports fell 6%. Some have interpreted the growth in non-petroleum imports as a sign that the economy is beginning to grow again. On the other hand the modest growth in non-petroleum exports has left analysts waiting to see if the steady devaluation of the pound over the last nine months is going to result in increased exports. Some analysts continue to see the poor performance of the economic sectors as a major weakness in the Egyptian economy and point to structural flaws. One analyst noted that the war in Iraq might have cost Egypt \$1 billion in export revenue

The performance of the industrial sector is coming under increased attention. A recent study of

Egypt's textile and apparel sector noted that in order for Egypt to secure its position in world textile/clothing markets in the face of growing Chinese competition, Egypt must not only look for arrangements that provide preferential access (e.g. FTAs), but also must address the problems of high Egyptian tariffs on production inputs which inhibit the ability of exporters to take advantage of the depreciation of the pound. The study noted that Egyptian tariffs average 25% compared to 15% in competitor countries.

The Float, Inflation and Its Impact

September saw growing concern about rising inflation in Egypt. Since the beginning of the year the inflation rate had climbed on an annual basis from just under 3% to 4.4% in July. With a 10% increase in the price of white sandwich bread in the beginning of September and reports of shortages, the government announced measures in mid-September to address the problem. Some 1.4 billion Egyptian pounds were released as additional credit to maintain supplies of staples such as wheat, cooking oil, sugar, beans, rice and tea. The Ministry of Support and Internal Trade made 250 million pounds available for immediate payments to rice farmers to deliver their harvest to the mills.

September also saw growing concern that the devaluation of the pound earlier this year was not producing the desired results. Analysts complained that the government's interference in the market introduced an element of uncertainty. Of particular concern was Decree 506 issued in March, which obligated exporters and travel companies to give up 75% of their foreign currency revenues. In mid-September the government decided that tourists would have to pay for the cost of any medications or medical treatment received in Egypt in foreign currency and that hospitals must sell 75% of their revenues to the state. Economists and bankers have complained about a shortage of dollars in the economy, which is in part due to banks limiting the amount of dollars made available. This rationing takes place in the context of an agreement between the Central Bank and the banks to reduce pressure on foreign currency reserves.

This situation led to a growing gap between the official exchange rate and the black market rate. In early September the black market rate climbed to an all time high of 7.30 pounds to the dollar while the official rate remained at 6.13 pounds. In late August Standard & Poor's lowered Egypt's long-term local currency credit rating to negative due to a concern about the rising budget deficit and the general government debt burden.

The picture changed in late September when the black market rate fell to the 6.8-6.9 pounds to a dollar range and the gap between the official and black market narrowed. Commentators speculate that the change came about because confidence in the pound rose when the Central Bank sold dollars and took other steps to increase the amount of dollars available to the banks. The government announced that the Central Bank would make \$400 million available to banks to cover their needs.

Privatizations May Pick-Up Finally

In September the government announced that it had approved – in principle – the sale of 35 wholly- or partly-owned state enterprises, including a 39% stake in the Egyptian Company for Starch & Glucose. The government also intends to sell joint venture banks. These privatizations are supposed to take place in 2004. The privatization program had almost stagnated as only 13

companies were divested in 2001 and seven between January 2002 and May 2003.

Trade Policy Developments

Over the last three months trade relations between the US and Egypt have started to move out from under the cloud that has hung over them since June following Egypt's decision not to join a US-led case in the WTO over EU restrictions on genetically modified organisms (GMOs), and the subsequent response from the US that, in its view, the time was not ripe to pursue bilateral free trade agreement (FTA) negotiations.

Egypt reportedly played an important role in resolving the last remaining issue from the October 2001 WTO Ministerial in Doha regarding intellectual property and health, although Egypt was not as visible a player as South Africa, India, Mexico or Kenya. The agreement reached in Cancun will make it easier for poor countries to import cheaper generic drugs made under compulsory licensing. Resolving this issue was important to the US in the run up to the Cancun Ministerial as some considered the US a hold out. In his speech in Cancun Minister of Foreign Trade Youssef Boutros-Ghali welcomed the agreement and noted that it was a step forward.

Egypt's primary focus in Cancun, however, was on agricultural trade liberalization. Minister Boutros-Ghali said:

It is time that agriculture is brought into the mainstream of our rules-based system. It is time that agriculture is opened up, so that the great potential that is within the reach of developing countries can be achieved.

Egypt looks forward to the day when it will grow from a net food importer into a net food exporter. That day will come when trade in agricultural products is liberalized, and subjected to the disciplines that cover other goods.

Egypt was particularly concerned about lifting market-distorting export subsidies, noting that cotton is the primary Egyptian export crop facing problems in foreign markets because of subsidies. On the other hand, as a net food importer, Egypt also expressed concern that the reduction of domestic supports might raise the food costs of countries such as Egypt. Egypt's support for the removal of non-agricultural market access barriers was also qualified. Minister Boutros-Ghali said:

Egypt believes that we should continue liberalization. But we must remain aware that many developing countries still need protection and support for industries that have not yet taken hold in their economies. These concerns have to be accommodated.

In addition, Egypt had special concerns not necessarily shared by all developing countries. In particular, Egyptian producers fear that the phasing out of quotas on clothing by January of 2005 will subject their apparel exports to increased competition from China and other major suppliers in third markets. A recent Egyptian Center for Economic Studies report noted that after 2005 Egypt will face fierce competition from Chinese exports in the US and European textile and clothing markets. The study noted that Egypt is already losing market share in these markets.

The Cancun conference broke down before a last ditch effort to reach a compromise on the agriculture issues could be launched. The breakdown in talks stemmed from an inability to agree on how to move forward on issues related to investment, competition policy, transparency in

government procurement and trade facilitation. These issues (called the Singapore Issues because they were first introduced at a WTO Ministerial in Singapore in 1997) remain controversial for many developing countries. In Cancun, these countries, including probably Egypt, were not ready to move forward with negotiations on these issues. Egypt formally took the view that the issues are still not clear enough, especially those related to investment and competition policy, and that any agreements would have to be drafted so as to take into account the capacities, constraints and needs of developing countries. The US was eager to move forward on trade facilitation and transparency in government procurement.

Even though the scope of the WTO discussions on agriculture, trade facilitation and government procurement remain unresolved, the US and Egypt have agreed to discuss these issues bilaterally in the context of the US-Egypt Trade Investment Framework Agreement (TIFA). During a TIFA meeting in Washington in October 2002 four working group were established to discuss these issues plus sanitary and phytosanitary matters. However, given the complexity of some of the issues and their importance, discussions at both the bilateral and multilateral levels are probably necessary to reduce the adverse impact on trade and development of some of the barriers in these areas.

B. Ukraine Land Titling Initiative (ULTI), TO #811

Start Date: June 22, 2001

Completion Date: September 30, 2003

Amount of Delivery Order: \$17,299,936

July - September 2003 Quarterly Report

The project was extended through September 2005. The project has been re-registered with the Ministry of Economy and re-accreditation of project is ongoing using the original MOU as the basis. On September 17, 2003, ULTI project management submitted its 2003 – 2004 work plan to USAID. During a recent meeting, the project CTO expressed his general approval for the plan, but indicated that some comments would be sent to the ULTI project in the near future. Once those comments are received, ULTI management will modify its work plan accordingly and operate according to the approved plan. Generally, progress in the five areas of the project's work for the month is described below.

The Ukraine Land Titling Initiative project team is working on the following issues:

Agricultural Land Titling

Preparation of State Acts

As of this month, ULTI has assisted with the issuance of 536,000 State Acts for agricultural land (approximately 40,000 in this month). The team has verified that these State Acts are issued and in the hands of land share holders. The project team has also verified that at least 283,000 State Acts have passed Stage 2 of our contracting phase, meaning that these State Acts could be issued to land share holders in the near future provided no delays due to Derzhkomzem actions.

Unfortunately, this number continues to grow each month, in large part due to delays in the issuance of State Acts caused by problematic actions of Derzhkomzem. The new Order No. 135

(the Order that replaced Directive No. 23) is causing the latest problem. The effects of this Order are now clear; the cadastre centers under Derzhkomzem expect a payment of 15 UAH for “registration” of land parcel(s) from each land share holder who gets a State Act. Fortunately, in many cases the project is able to work at the local level with oblast department of land resources to resolve the registration fee issue and get State Acts issued to citizens. The project continues to work on the national level to combat Derzhkomzem’s actions and to remove the requirement to collect registration fees.

Progress Review of Work to Prepare State Acts

Recently, the team completed an analysis of the work to prepare and issue State Acts to agricultural land and concluded that ULTI is making substantial progress, despite the numerous problems and delays caused by Derzhkomzem actions. Over the last ten months, the project has supported the issuance of approximately 250,000 State Acts. Generally, the project’s land survey subcontractors have completed about 58 percent of the work under contract. Subcontractors complete on average 40 work areas per month and 70 work areas per month pass Stage 2 of the project’s contracting process.

Contracting for Land Titling Work

Land surveys and preparation of State Acts continue under 90 contracts covering approximately 733,000 land shares. The project has committed to fund the preparation of State Acts for up to 100,000 more land share holders in Zhytomyr, and expects to announce the tender for this work in October 2003. The project estimates that cancellations of existing contracts (either due to subcontractors’ violations of a contract’s terms or due to their inability to complete work) will result in extra funds allowing the project to finance the preparation of State Acts for up to 30,000 land share holders not previously included in the project. Finally, the current budget for the project’s extension period includes funds for the preparation of State Acts for approximately 25,000 land share holders. These funds will mainly be used to do “clean up” work in certain oblasts where the project already is working.

The project is considering the possibility of extending its work in several oblasts: Chernivtsi, Vinnitsa, Ternopil, and Chernigiv. The team continued to meet with the heads of the department of land resources in these oblasts and explained that any extension depends on approval from USAID and additional funding for land titling (which should be determined in October 2003). Project management made it clear to the oblast department heads that it will employ strict criteria in deciding which oblasts should get additional financial resources for land titling. The criteria are:

- No less than 75 percent of existing contact work under the project must be completed (i.e., State Acts delivered into the hands of land share holders).
- Oblast administration must sign a new Cooperation Agreement with the project.
- Oblast department of land resources must agree to full support of the project and its activities for the duration of land titling work in the oblast. As new problems or issues arise, the department must commit to cooperate actively with the project to resolve these matters in a timely manner.
- The new five-party agreement on joint cooperation to issue State Acts must be signed by the oblast department of land resources, the raion administration, the village rada, the subcontractor and the project for all work areas covered by project funds.

- The oblast department of land resources must agree to conduct national tenders for land survey firms to perform work in the oblast.

Provided that an oblast agrees to these conditions, the project is prepared to consider an extension of its work financing the preparation of State Acts.

Collaboration with ULRMC on Purchase and Use of Satellite Imagery

The project is prepared to cooperate with ULRMC to purchase satellite imagery for several oblasts in which the project might continue working on land titling during its extension period. These oblasts are: Chernigiv, Vinnitsa, Ternopil, Kherson, Zhytomyr, and Chernivtsi. The team has worked with ULRMC to finalize the cooperation agreement, scope of work and two licensing agreements for use of the satellite imagery that ULRMC intends to purchase. We expect to sign the documents and order the satellite imagery for support of the ULTI project in October.

Cooperation with World Bank on Agricultural Land Titling

No cooperation occurred this month.

Cooperation with Swedish NSDI project to Develop New Parcel Identification Numbering Scheme

Cooperation between ULTI and NSDI has been completed. The NSDI project officially ended its activity in September 2003. As part of the cooperative effort, the ULTI team produced cadastral index maps of administrative territorial boundaries for 17 oblasts and a progressive concept on a uniform cadastral numbering system for Ukraine as part of the real estate registration system.

Collection of Land Titling Data in Electronic Format

This month the project has transferred the verification software package to subcontractors covering 14 contracts. The team conducted quality reviews of the digital data and field verification visits for work areas in several oblasts. Most of the work has proved to be satisfactory, but some problems have been uncovered and are in the process of correction by the subcontractors. The project is receiving large amounts of electronic and graphic data for verification and needs more resources to examine that data carefully to ensure that survey errors are minimized. This issue is important to the project because the quality of land titling depends largely on our staff's ability to conduct, at a minimum, spot check verifications of our subcontractors' work. The tools in the software give us that capability, but the lack of staff to conduct such examinations is limiting our ability to move through the data in our possession. The project needs to hire additional staff to maintain the quality control and verification procedures, but the current budget does not allow for such expenses making it unlikely that full scale quality control and verification (as well as data archiving) activities will occur. The team hopes that USAID identifies additional funds for land titling activities in the near future to make these important activities possible.

The team also intended to conduct a tender for a contract to perform quality control over the land titling work completed by our subcontractors. The plan was to have an independent survey/land titling firm conduct a spot verification of each ULTI subcontractor and report on the quality of work. The tender was originally scheduled to be announced in early August, but the lack of

money for land titling activities in the new budget for the project extension has resulted in the temporary cancellation of this quality control contract. We are proceeding to conclude a small contract with a private firm to conduct a quality control check on one of the project's land survey subcontractors that has shown a tendency for faulty field work. The quality control work should be completed soon, after which, if no serious problems are found, some 5,000 State Acts can be issued.

Trouble Shooting

The team continues to resolve political and procedural problems related to titling agricultural land. The project's IT team has implemented the new complaint intake and tracking system for the reporting of problems and questions that the project handles on a monthly basis. The team also recently filled the vacant Problem Resolution Manager position, which will help to ease the burden on the ALT team and project management in resolving problems that arise with land titling. More detail on the most serious of the political and procedural issues is given in Section III on Significant Accomplishments, Problems, and Other Issues.

Impact Survey

The team is implementing a research survey to assess the economic impact of land titling (obtaining a State Act) on rural land owners. A team of four survey implementers began interviews on July 30, 2003 and completed those interviews in September. The survey team conducted interviews in eight oblasts: Volyn, Lviv, Vinnitsa, Kherson, Sumy, Poltava, Kirovograd, and Dnipropetrovsk. The raw data from some 850 respondents in these oblasts is processed and ready for analyzing by the RDI lawyer who will draft the final report on the findings of the impact survey. The team expects to complete the research effort by October 31, 2003 and make a formal presentation of its findings to USAID by that time.

Non-agricultural Land Titling

Issuance of State Acts

As of the end of August 2003, (the last full month of statistics available at the time of this report) 9,182 State Acts were issued as a direct result of the project's activities, with 332 State Acts issued in the month (67 percent of the monthly goal). Unfortunately, due to problems caused by Derzhkomzem's collection of registration fees and demands from the State Tax Inspectorate for payment of VAT on all land sales, the August results were the worst in nearly 12 months. Of the State Acts issued in the month, 10 were issued on land parcels purchased before August 1, 2001 and 322 on land parcels purchased after August 1, 2001. The total value of land parcels to which State Acts were issued this month is UAH 7.210 million. The problems affecting NALT activity are described in detail in section III below on Significant Accomplishments, Problems, and Other Issues.

This month, nine regional coordinators reached 100 percent or more of their monthly targets and thirteen regional coordinators failed to reach even 50 percent of their monthly target for issued State Acts. Table 1 gives complete data on the number of sales, number of State Acts issued, and revenue generated from land sales by the project team since it began working in this area in July 2001. Annex 2 to the report shows information on the results of land privatization activity and issuance of State Acts by oblast for the last month. Forty-eight of the State Acts issued in the last month were for "secondary sales" of non-agricultural land. There is a total of 876

“secondary sales” on which State Acts are issued as of this month.

It is worthwhile to note that ULTI regional coordinators continue to work on the issuance of titles for another 2,110 land sales (as shown in the table below). This is a relatively stable number from month to month, meaning that in addition to the issuance of State Acts, the team is managing a large number of land sales through the pipeline.

Table 1: Non-agricultural Land Privatization Statistics since August 2001

| Number of land privatization sales | | | Revenue generated from issuance of State Acts (in UAH) | Total Number of State Acts issued with project assistance | Number of State Acts yet to be issued | | |
|------------------------------------|--------------------------------|--------------------|--|---|--|---|-------------|
| Completed before August 1, 2001 | Completed since August 1, 2001 | | | | On sales completed before August 1, 2001 | On sales completed after August 1, 2001 | Total sales |
| | Installment Sales | Total No. of Sales | | | | | |
| 3,740 | 1,675 | 8,661 | 223,947,216 | 9,182 | 497 | 1,613 | 2,110 |

Managing the network of regional coordinators

The project held its monthly meeting of regional coordinators on September 17, 2003. At the meeting the regional coordinators discussed:

- *Problems with VAT collections on land sales and registration of land parcels that delay the issuance of State Acts;*
- *Results of NALT activity in August 2003;*
- *Marketing information for the project’s success story brochure;*
- *Update on the land auctions training program; and*
- *New laws and the status of draft legislation in the Verkhovna Rada.*

Measures to Accelerate the Issuance of State Acts

The team has adopted a number of actions to accelerate the issuance of State Acts to non-agricultural land. The team continues to use the installment contract under which the State Act is issued once the land purchaser makes the initial payment. The project’s model installment contract is being used widely in at least eight oblasts (Chernigiv, Ivano Frankivsk, Kiev, Rivne, Vinnitsa, Volyn, Zakarpattya, and Zhytomyr) and used in at least two raions in another six oblasts (Cherkassy, Kharkiv, Kherson, Khmelnytsky, Poltava and Sumy).

Regarding land auctions activity, the team is preparing for the training seminar on October 16 – 17, 2003. The team is inviting 70 individuals to attend the sessions, including its regional coordinators, local rada officials, and special guests. The project is sponsoring a press conference for journalists to promote land auctions nationwide. The theme of the press conference will be to inform the public and local officials of the project’s willingness to support land auctions in Ukraine. At the press conference, the NALT team will raise issues that currently obstruct the land sales and privatization process, including the issues related to registration of land parcels and payment of VAT on land sales.

In September, the team supported land auctions in two oblasts (Lviv and Sumy) where a total of eight land parcels were sold. Auctions are being prepared in another four oblasts and should be held before December 31, 2003.

Promotional Campaign

In September, the regional coordinators continued holding local seminars for the representatives of enterprises and local governments. Raional seminars were held in Dnipropetrovsk (1) and Kherson (1). Regional coordinators continue meeting regularly with local officials and entrepreneurs to promote land sales and privatization of land.

The team also completed the fourth quarter edition of the NALT newsletter, which the regional coordinators will distribute in October. Featured in the newsletter this month was the issue on payment of VAT on land sales. The team's senior attorney prepared an in depth legal analysis on the issue, coming to the conclusion that VAT should not be charged on land sales. Other issues included in the newsletter are:

- Progress of land sales in oblast centers,
- Land sales in Donetsk and Mykolaiv oblasts, and
- Recommendations on valuation of land parcels.

Site Visits to Regional Offices

Lviv oblast September 30 – October 1, 2003

The purpose of the trip was to gather information and to analyze the experiences of local radas in organizing and holding land auctions in Lviv oblast. Since Lviv city is the most active city in holding land auctions in Ukraine, the NALT Manager attended a land auction held by the Lviv Municipal Rada on September 30, 2003. Lviv has been holding a land auction nearly every month since June, during which time the municipal rada has sold 20 land parcels through auctions. The total revenue earned by the city from these auctions is almost UAH 8.5 million. The city expects to organize two more auctions in 2003 to sell another 45 land parcels and expects the total revenues from land auctions to exceed UAH 25 million. While the active interest in conducting land auctions in Lviv is certainly a positive trend in Ukraine, Lviv city has made many mistakes in the process of preparation for their land auctions and during the auctions themselves. These problems are caused by poorly qualified local officials and auctioneers, and have resulted in public scandals over the results of each auction. For example, recently the Prosecutor's Office filed a law suit demanding that the sale of certain parcels be recognized as invalid because the land parcels sold at auction officially had been transferred for use to third parties prior to the auction. Such mistakes may eventually discourage the Lviv rada from organizing land auctions in the near future. As previously reported, on several occasions during the spring of 2003 the project offered to assist the local officials in Lviv organize land auctions, but the Lviv authorities refused the offer of assistance for unknown reasons.

During the trip the NALT Manager met with Mr. Kuz'mak and Mr. Makhin'ko, the deputy heads of oblast department for land resources to discuss the prospects of holding land auctions in cities in Lviv oblast. The oblast department in cooperation with the Project's regional coordinator initiated the preparation of about 30 land parcels located in different raions of Lviv oblast for sale through auction. All necessary materials and documents are prepared for the sale of these

parcels and awaiting approval by the respective local radas. The oblast department is going to present the information on the land parcels to be sold through auctions at the investment forum on October 2 to 4, 2003 (an annual event organized by various local organizations for Ukrainian and foreign businessmen). The deputy heads showed a strong interest in cooperating with the project in organizing land auctions and in particular in distributing information through the project's newsletter. The NALT Manager informed the officials of the ULTI land auctions training program and other actions planned by the project to support land auctions. Mr. Kuz'mak has agreed to attend and participate in the land auctions training program in October.

Finally, the NALT Manager participated in a meeting of the regional coordinators from Western Ukraine, held in Lviv on October 1, 2003. The Western Ukrainian Association of Real Estate Agents organized the meeting. This is the Association established by regional coordinators from the project over the summer. The issues discussed at the meeting included the status of non-agricultural land privatization in the regions, exchange of positive experience in different aspects of land sales process; development of the plan for the Association's activity for 2003; and the procedure for conducting expert appraisal of land parcels. The regional coordinators also discussed including the organization of land auctions on its list of services offered by its members and discussed the action to promote such services.

Legal and Regulatory Work

Draft Legislation, Comments, and Position Papers

- Law on Withdrawal of Land Shares in Kind. The team is now preparing the annotation to the law and intends to print and distribute the text of the law along with the annotation in October.
- Draft Law on Private Family Farms. The ULTI draft of the law was passed and signed into law in July, just before the Rada's recess for the summer. The team lawyers continue explaining the implications and interpretation of the new law via television and radio programs.
- The Verkhovna Rada has convened its autumn session and ULTI expect action on the following draft laws:
 1. Draft Law on Land Market – the project's lawyers are assisting in the final preparation for this draft to be presented in the Rada. We expect action on this draft law in October. One key issue will be the moratorium on alienation of agricultural land parcels, which some factions wish to extend until 2007 or even later.
 2. Draft Law on Land Survey – unknown status.
 3. Draft Law on Amendments to the Land Code. – the draft is likely to see action in the autumn session of the Rada. Our lawyers are engaged in the working group dealing with this draft law.
 4. Draft Law on State Survey Expertise. – redrafting expected to occur in October.
 5. Draft Law on Delimitation of Land into State and Communal Ownership – unknown status.
 6. Draft Law on Taking of Privately Owned Land for Public Purposes – redrafting expected to occur in October.
 7. Draft Law on State Control Over the Use and Protection of Land – no action expected in near future.
 8. Draft Law on Lease of Land -- no action expected in near future.

- The team's senior lawyers prepared several legal opinions on a variety of topics, including privatization sales for non-agricultural land, payment of VAT on land sales, etc. The team continues to brief officials in government, the Verkhovna Rada and donor agencies on the two most important issues that adversely affect the projects' activity: registration fees and the registration system and the collection of VAT on land sales. For example, team lawyers met with the deputy head of the Verkhovna Rada's budget committee to discuss these issues and offered several briefing papers on the topics.
- The legal team also prepared a model contract on exchange of agricultural land parcels to be included in the new set of leaflets for rural citizens. The new leaflets are printed and are being distributed to citizens during titling ceremonies and visits by information agents to each village rada included in the project. The legal team reviewed and rewrote each of the leaflets to ensure that the information was correct and properly explained procedures involved with land relations.

Issues Related to Allocation of Agricultural Land to Crimean Tatars

ULTI representatives, including the senior lawyer, traveled to Simferopol to meet with representatives from the Crimean Tatars, the Rada of Crimea, the representative of President Kuchma in Crimea, and others to discuss issues related to allocation of agricultural land to Crimean Tatars. The meeting made it clear that no consensus on the issue exists among the various groups. Parties representing the government clearly do not wish to recognize the issue, while the Tatar representatives claim that any allocation of land under the current Land Code is likely to be inequitable, and thereby unacceptable to the Tatar people. The ULTI team's efforts to discuss establishment of a working group to resolve these issues were ignored, making it clear that progress on the issue is not likely in the near future.

Simplification of Land Titling Procedures

As described above, the Verkhovna Rada passed the Law on Allocation of Land Shares in Kind on June 5, 2003. Despite several provisions in the law with which the project legal team disagrees, the team hopes the new law will help simplify much of the work on preparation of State Acts to agricultural land. The team is now working on the annotations to the law, which it expects to publish and distribute widely to heads of village radas and raion administrators throughout Ukraine.

USAID – GOU Working Group to Address Land Titling Issues

There has been no official meeting of the working group as a whole since its formation. At this point it appears that there is no political and administrative will to convene the working group. The future of this group seems bleak, although recent statements from USAID representatives indicate some willingness to revive the group.

Environmental Issues

USAID approved five of the six tasks in the ULTI proposed IEE Implementation Plan submitted to USAID in April 2002. One task is still under debate by USAID. The project has completed four of the five approved tasks. The last task is to organize a public hearing or a seminar to get comments on the environmental information it distributes to the general public.

Program for Legal Aid to Landowners

The project continues to plan the expansion of the legal aid program into an additional seven oblasts of Ukraine. The new center in Zhytomyr will be officially opened during the week of October 27, 2003. The Zhytomyr team will begin working about two weeks prior to the official opening ceremony. New employees will attend a training session in Kiev on October 8, 2003. The project is planning to open six more centers in oblasts throughout Ukraine and has already received letters of official support from the following oblasts administrations: Lugansk, Sumy, Lviv, and Odessa. The project also received a letter from the Chernivtsi administration requesting that the project open a center in that oblast, and after formalizing that support letter, the project intends to include Chernivtsi as an oblast in which it will open a legal aid center. Rumors from Kharkiv are that the oblast state administration will send a letter denying its support for a ULTI legal aid center. If the project receives such letter, our team will investigate the politics behind the decision and determine if opening a center in Kharkiv is feasible.

The team has prepared written materials for the legal aid program's quarterly newsletter and the legal aid page on the ULTI website. The newsletter will be used to promote on a wide basis issues that arise in the oblasts where the legal aid centers operate and the actions taken to resolve those issues. The website will be a tool for interchange of information among the legal aid centers, and a resources for the public that has access to the internet. For example, when one center solves a local problem, the staff can deliver the information and the technique for solving the problem to colleagues in other centers via the website. The website will also contain model contracts that can be printed by citizens for use in lease arrangements and other types of land related transactions. Finally, the website will have a section of commonly asked questions and answers.

The effort to establish cooperation with the Association of Legal Students to distribute information to rural citizens is progressing. The legal aid team prepared a cooperation agreement, whereby the legal aid program will train the students in the Association that work in the student legal aid centers around Ukraine, and the student legal aid centers will distribute information on land related issues to rural citizens. The team recently gave a draft of the agreement to the President of the Association for review. We expect to sign the agreement and begin our work with the Association in October.

The legal aid program conducted a two-day organizational and progress meeting on September 11 – 12, 2003 in Kiev. Attendees learned about the specifics of new laws related to agricultural land issues. A part of the meeting was also devoted to the effective use of the Peace Corps Volunteers at the centers.

While the centers focus their activities and consultations on land related issues, the staff also tracks the non-land related issues about which citizens often complain. The most prevalent non-land complaints deal with property shares and the failure of citizens to get proper allocation of those shares, and the use of a person's household plot.

Interesting Problems Encountered by Legal Aid Program

In Kherson oblast, one individual asked for assistance from the legal aid center to create and legalize an Association of citizens/land parcel owners in the Olgivka village rada, Berislavski raion. Apparently, after a group of land share holders received their State Acts to land, the

agricultural enterprise that had been leasing in their land refused to re-conclude land lease agreements for the next year. Since no other lessee was willing to farm the land of these landowners, they decided to join together and independently farm their land parcels. The legal aid center lawyers drafted a charter for the Association and helped legally register it with the village rada. The legal aid center prepared other necessary legal documents including the minutes of the founders' meeting and the application for registration. The prior lessee had accumulated arrears in his lease payments, so the legal aid center advised the members of the Association to seek the delinquent rental payments from the lessee in the form of services, such as machinery services necessary to cultivate their land parcels. If successful in this regard, the legal aid center would help resolve two problems at once; the landowners would receive delinquent rent and also have resources to help them cultivate their land. Another positive aspect in the case is that the landowners are actively seeking ways to improve their situation.

Public Education and Outreach

In September, the public education team continued to work on preparation of numerous written materials for the ALT team, the legal aid program, and the project in general. The set of documents being prepared over the last few months includes the following:

- *Four new ALT leaflets (process of exchanging a land share certificate for a State Act, formation of a private family farm, formation of a subsidiary farm, obtaining a land parcel in joint ownership and use).*
- *Four legal aid program leaflets (process of exchange of land parcels, how to complete a contract for exchange of land including a model exchange contract, issues related to inheritance of land, and issues regarding the lease of land parcels).*
- *ULTI project annual journal that addresses ULTI activities, successes, problems, and the law related to land relations.*
- *Legal aid program quarterly newsletter.*
- *Written materials for the ULTI website.*

The leaflets are printed and being distributed by information agents and legal aid program employees throughout Ukraine. The Project journal and legal aid newsletter are yet to be printed and made available for distribution, which should occur in October.

The public education team has now secured additional time on Ukrainian national radio for Agronovini. The program is now aired in the mornings as well as in the evenings at 9:00 PM. The public education team expects the additional exposure of the general public to issues of concern to rural Ukraine will be extremely beneficial in getting information on land reform publicly recognized. In addition to the continued sponsorship of Agronovini the project is working with Silsky Chas each week to produce 10-minute television spots on land reform issues. This last month, Silsky Chas covered the Lugansk press conference and devoted three other spots to answering questions from rural citizens and explaining the new law on Private Family Farms. The Public Education team is trying to establish a radio or television program in most of the oblasts where the project works on agricultural land titling. The first oblast to cooperate in this regard is Kherson, where the project is sponsoring a television program that offers information to new land owners about protecting their rights to land. The program will be broadcast on a weekly basis (on Sundays at 18:35 and is repeated on Saturdays at 12:30) on Kherson oblast television. The first television spot was broadcast in Kherson oblast on September 28, 2003.

This month the team continued its correspondence campaign with heads of village radas, raion officials, and oblast officials by sending over 193 letters to officials in all oblasts where the project works. Yet to be sent out in early October are the reports on the project's progress to the oblast and raion officials in each oblast. The project sends these letters each month to keep local officials informed of the project's progress and maintain contact between the project and the oblasts. The Public Education team expects to send out letters to all oblasts by October 8, 2003.

II. PROGRESS ON MEETING THE QUARTER'S GOALS

Agricultural Land Titling

1. Continue verification and payment activities for existing contracts. – *These activities continue.*
2. Sign new cooperation agreement with ULRMC for the purchase of satellite imagery in several oblasts. – *The draft agreement is completed; final discussions are ongoing between the two projects. We expect to sign it in October 2003.*
3. Verify the return of money collected improperly by subcontractor *Zemlyvlasnik* in Chernigiv. – *The subcontractor has presented the project with the documents necessary to return money to village radas where the subcontractor collected it improperly. The Chernigiv Legal Aid team continues to verify that the information is correct. Once verification is completed the project and the subcontractor will proceed with the agreement to refund money to citizens. Unfortunately, the refund process is taking longer than expected, but should begin in October.*
4. Finish the survey and data entry work for the agricultural land titling impact study. – *The study will be completed in October 2003 by RDI attorney Leonard Rolfes. If necessary, Mr. Rolfes will prepare a presentation for USAID on the study and its findings.*

Non-agricultural Land Titling

1. Conduct at least two visits to regional offices. – *The NALT manager conducted one visit to Lviv this month.*
2. Continue holding local seminars on non-agricultural land sales for enterprises and local governments. – *The team held local seminars in two oblasts.*
3. Prepare materials for the next issue of the newsletter. – *The materials are written and are translated into English for the Short Term Consultant.*
4. Edit success stories from the oblasts. – *Initial editing of the Ukrainian text is underway, and editing of the English text (for content and impact) will occur in October during the visit of the Short Term Consultant.*
5. Prepare draft agenda for land auctions training program; continue organization and planning for the event. – *The land auctions training seminar is scheduled for October 16 – 17, 2003. All materials are either completed or in progress. The arrangements for speakers, the venue for the seminar, and logistic details are being finalized.*

Legal and Regulatory Work and Legal Aid Program

1. Continue to prepare the annotation to the Law on Withdrawal of Land Shares in Kind. – *Work on the annotation continues and should be completed in October 2003.*

2. Prepare a number of articles for ULTI journal and the project's NALT newsletter "Land and Ownership" on legal issues. – *The legal team prepared articles for the newsletter on the improper collection of VAT on land sales.*
3. Participate in the meetings of the working group of the Verkhovna Rada's Committee on Agrarian Policy and Land Relations to improve and finalize the draft laws on Land Market, on forced buy-out of land parcels and on state land survey expertise. – *The working group on these draft laws has not engaged in substantial work, mainly due to the Verkhovna Rada's interest in other issues related to politics in Ukraine since the beginning of the Autumn session.*

Program for Legal Aid to Landowners

1. Finalize the first issue of the quarterly journal for the legal aid centers. – *The materials for the first issue of the newsletter are completed.*
2. Collect all information necessary for the establishment of the program website. – *All materials were prepared and submitted to the public education team for incorporation into the new ULTI website.*
3. Complete the tasks planned for September related to the opening of the Zhytomyr legal aid center. – *The Zhytomyr legal aid center official opening ceremony is scheduled for the week of October 27, 2003. The project has hired three lawyers to work at the center, has found office space for the center, and has installed all equipment and furniture at the center.*
4. Prepare a draft cooperation agreement with the Association of Legal Students. Develop the strategy for cooperation on training and information distribution. – *The team prepared a cooperation agreement and has delivered it to the Law Student's Association for comment.*
5. Finalize the initial plan and timetable for expansion of the legal aid program into six additional oblasts. – *The planning for the opening of six additional legal aid centers continues. To date, oblast administrations from Lugansk, Sumy, Odessa, and Lviv have responded positively to the project's intentions to open a legal aid center in the oblast. The administration in Chernivtsi has also sent a letter requesting that the project open such a center in the oblast. Unfortunately, Kharkiv appears inclined to reject the ULTI proposal for a legal aid center, although no official response has been sent to our office.*

Public Education and Outreach

1. Conduct the press conference in Lugansk explaining the reasons for the project's termination of its survey contracts with "Lan" private survey firm. – *The press conference occurred on September 18, 2003. The project considers the event to be a great success.*
2. Complete the publication of a new set of leaflets for rural citizens and land share holders, leaflets for the legal aid program, and the national journal for the ULTI project. – *The leaflets are printed and being distributed by legal aid center employees and information agents. The ULTI national journal is still being edited and will be printed in October.*
3. Place articles written by the Legal Aid Center lawyers in local and national newspapers. – *The Public Education team placed articles in local newspapers in a number of oblasts.*

III. SIGNIFICANT ACCOMPLISHMENTS, PROBLEMS, AND OTHER ISSUES

Problems

Derzhkomzem Order No. 135

This Order is causing problems for the issuance of State Acts to both agricultural and non-agricultural land. Unfortunately, Derzhkomzem's and the cadastre centers' idea of registration does not correspond to conventional norms. It is clear to the project, from meetings with cadastre center staff and representatives from the oblast departments of land resources, that the cadastre centers do not understand registration issues and conduct any registration that occurs incorrectly. Moreover, it is clear that the current registration system that Derzhkomzem is attempting to build will be of little use when the World Bank begins its development of a unified real estate registry. Thus, it is evident that the current effort to build a registration system is Derzhkomzem's attempt to collect money improperly from citizens as part of the ongoing land reform in Ukraine.

As previously reported, the director of the cadastre centers has issued a fee order that all persons receiving a State Act to agricultural land must pay 15 UAH for registration of their State Act(s).

Obviously this order will delay the issuance of State Acts to land share holders who rarely have money to pay such fees. In many cases citizens receive more than one parcel of land (sometimes 2 or 3 parcels) as part of their land share, meaning they are required to pay up to 45 UAH for registration prior to receiving their State Acts. Fortunately, the team has been working closely with the department of land resources in many oblasts to resolve the matter. In some oblasts the matter is being resolved creatively through cooperation between the project team and the department of land resources. In other oblasts, the situation is not yet resolved and will require greater attention from the project team.

For issuance of State Acts to non-agricultural land, the system of registering land parcels is a huge obstacle, as shown by the last month's dismal results for State Acts issued. The procedures for registration are too complicated, resulting in substantial delays in issuing State Acts. In many cases cadastre centers lack the necessary technical equipment and qualified specialists to conduct the data processing and registration procedures. Moreover, an oblast department for land resources is allowed to give out the blank forms of State Acts only after the land parcels have been registered, which is absurd in itself. Often State Acts are not issued because the buyers of land parcels (especially of small and medium ones) refuse to pay the substantial registration fee required by the cadastre centers. In some oblasts there is complete chaos, caused by the transfer of registration books from local bodies for land resources to the cadastre centers (in accordance with Derzhkomzem Order #135). The situation is causing serious problems and will continue to result in serious delays in work on the issuance of State Acts.

Trouble Shooting for the Agricultural Land Titling Component

The team worked to resolve the following problems this month:

- Lviv – Land survey subcontractors have reported substantial progress in completing work under ULTI contracts, but are unable to issue State Acts because of the registration fees demanded by the department of land resources and cadastre centers. The team is planning a trip to Lviv to conduct a series of meeting with officials to resolve the registration problem and accelerate the issuance of State Acts in the oblast.

- Ternopil – The problem with collection of registration fees seems to be arising in this oblast. The team will schedule a trip to conduct meeting with officials to resolve any problems. The project believes that the oblast department of land resources is willing to cooperate in resolving any problems that arise in order to ensure its good standing with ULTI, and to continue as a prime candidate for any additional funds for land titling work in the future.
- Rivne – The problem of registration fees has blocked issuance of State Acts in the oblast for several months. However, there is a strong possibility that the impasse may be resolved and that a large number of State Acts will be issued in October. After a meeting between project representatives and oblast officials, it appears that the oblast has agreed to conduct registration of State Acts under the old system of registration books and not to collect money from land share holders for registration of land parcels until future transactions related to the land occur. The project team believes this compromise to be an excellent solution to the roadblock posed by registration fees, and hopes to introduce the scheme in other oblasts to resolve problems with registration.
- Zhytomyr – Registration fees have also presented a problem for issuance of State Acts in Zhytomyr over the last few months. The team met with officials in the oblast on September 25, 2003 to resolve the matter. After discussions with the department of land resources and the cadastre center, the project convinced the officials to work through the registration problem. The oblast officials agreed to resolve the matter in the next two weeks and to issue at least 5,000 State Acts in the following 30 days as proof that registration fees do not present an obstacle to issuance of State Acts. Provided that the oblast officials follow through with these actions, the project will announce a tender to complete land titling work in the Northern half of the oblast honoring the project's commitment to the oblast made in May when the new cooperation agreement was signed with the oblast administration.
- Lugansk – The project held a successful press conference with the help of the oblast state administration during which it announced that due to problems with survey subcontractor *Lan*, the project has ceased financing the issuance of State Acts to agricultural land share holders in the oblast. The project made clear that its cooperation with the oblast would continue with support for non-agricultural land titling, and perhaps with the opening of a legal aid center in the oblast. The representatives of the press raised many questions regarding the circumstances under which the project terminated its work with *Lan*, generally acknowledging that the survey firm collected extra fees for land titling work from eligible citizens. Overall, the feeling toward the project from the oblast administration and the press after the press conference seemed positive and understanding, which bodes well for any future cooperation in the oblast.
- Chernigiv – The team continues to make progress in its plan to require our subcontractor *Zemlyevlasnik* to return money for land titling work collected improperly from land share holders. The Chernigiv legal aid team has been verifying the information previously presented to us by the subcontractor. Once verification is completed, money will be refunded to citizens in several stages. While the process is taking much longer than expected, the project team believes that when money is actually returned to citizens we can

claim a substantial victory for the land share holders in Chernigiv. We expect the process of refunding money to begin in October.

On September 26, 2003, the team had a meeting with the oblast department of land resources, the raion officials, and survey firms in the oblast to prepare a timetable for completion of all existing work under ULTI contracts. Mr. Paliora, the head of oblast department of land resources, called the meeting at the ULTI project's request in an effort to prove his department is willing to cooperate with the project and resolve problems in implementing ULTI funded work. All sides agreed after the meeting that the effort was very productive and should help in accelerating the issuance of State Acts in the oblast in the near future.

- Odessa – The project has several meetings in Odessa oblast with authorities to discuss the slow progress of survey subcontractors there. One firm in particular, *MID*, is under fire from oblast officials for slow work. The project team assured oblast officials that we intend to honor our commitments in the oblasts and to find a new survey firm to complete existing work if *MID* is not capable of doing so. Two days after the meetings in Odessa, the project team met with representatives of *MID* in our office in Kiev and worked out a plan under which some work would be transferred to another land survey firm to speed up the process of land titling. The other two firms in the oblast seem to be progressing in their work.
- Zaporizia – Subcontractor *Elita* agreed in August to refund all the money it received as an advance for its work in Zaporizia, but has not transferred any money to the project yet. It appears that the matter will be settled in November when the project will have offset that total advance payment *Elita* received previously by withholding payments for non-agricultural land titling work completed by the firm. As of this time, *Elita* still owes the project the approximate equivalent of two months worth of non-agricultural land titling work.

Collection of VAT Payments on Non-Agricultural Land Sales

The problem related to the collection of VAT on land sales remains unresolved. The main issue is the uncertainty associated with land sales now that the tax inspectorate is demanding local radas to pay VAT on all land sales. As a result, most local radas have stopped the process of land sales and have not passed any decisions approving the sale of land parcels within their administrative territorial boundaries for several months. The project has prepared a written statement regarding the problems created by VAT payment in the process of privatization of non-agricultural land parcels that is being distributed to all local radas and state administrations through the NALT newsletter *Land and Ownership*. In addition, the project lawyer has met several times with the deputy head of the budget committee in the Verkhovna Rada to explain the issue and the problems associated with the demands to collect VAT on land sales.

Other Issues

Cooperation with the Ukrainian State Security Service (SBU)

There has been no further word on whether the SBU will investigate potential abuses by subcontractors implementing the project. As the project team understands, the US Inspector General was going to write a letter authorizing such investigation. To date the team does not

know if the letter has been written. Regardless, representatives of the SBU have not contacted the project or its subcontractors in recent months.

IV. NEXT QUARTER'S GOALS

Agricultural Land Titling

1. Continue verification and payment activities for existing contracts.
2. Sign new cooperation agreement with ULRMC; have ULRMC order satellite imagery for six oblasts.
3. Begin the process of refunding money collected improperly by subcontractor Zemlyvlasnik in Chernigiv.
4. Conduct meetings with oblast officials on registration fees in Lviv, Ternopil, and Volyn.
5. Finish the report on findings from the agricultural land titling impact study.
6. Announce the tender of land titling work in the Northern part of Zhytomyr oblast.
Approximately 80,000 land share certificates should be exchanged for State Acts using USAID funds.

Non-agricultural Land Titling

1. Conduct at least two visits to regional offices.
2. Continue holding local seminars on non-agricultural land sales for enterprises and local governments.
3. Distribute the fourth issue of the newsletter.
4. Complete preparation of text for the success story brochure. Prepare brochure for publication.
5. Hold the land auctions training seminar on October 16 – 17, 2003.

Legal and Regulatory Work and Legal Aid Program

1. Continue preparing the annotation to the Law on Withdrawal of Land Shares in Kind.
2. Work with the Verkhovna Rada committees on the draft law on Land Markets, the draft law on Forced Buy-Out of Land, and the draft law on State Land Survey Expertise.
3. Continue meetings with Verkhovna Rada Deputies on the two main problems/issues confronting the ULTI project: registration system and payment of fees and collection of VAT on land sales.
4. Participate in the training for new lawyers for the legal aid center in Zhytomyr oblast scheduled for October 8, 2003.
5. Participate in the land auctions training seminar on October 16 – 17, 2003.

Program for Legal Aid to Landowners

1. Conduct the two-day training session for the new lawyers that will work at the Zhytomyr legal aid center.
2. Open the Zhytomyr legal aid center, and conduct an official opening ceremony.
3. Continue to implement the plan for opening six more legal aid centers in 2004. Follow-up on support letters to oblast administrations in Kharkiv and Chernivtsi.
4. Finalize the draft cooperation agreement with the Association of Legal Students. Implement the strategy for cooperation on training and information distribution.

Public Education and Outreach

1. Conduct press conference in conjunction with the Land Auctions training program on October 16 – 17, 2003.
2. Conduct official opening ceremony for the Zhytomyr legal aid center the week of October 27, 2003.
3. Complete editing and print the national journal for the ULTI project.
4. Print the quarterly newsletter for the legal aid program.

Finalize the new ULTI website and conduct public relations ceremony for its opening.

C. Tanzania Tax and Mining Policy, TO #813

Start Date: July 9, 2001

Completion Date: December 30, 2003

Amount: \$1,629,987.00

Introduction

This report covers the progress of implementation of project activities for the period ending September 30, 2003. There were a number of major activities finalized, while other activities took steps toward completion.

Major Policy Issues

There were a number of new developments in policy areas directly related to the project. The Tanzania Revenue Authority (TRA) has drafted and presented to parliament a new income tax code for both businesses and individuals. This tax code is expected to be completed in early January 2004. It includes some provisions that will certainly deter foreign investment, given the still arbitrary approach to tax audits by TRA. These include a requirement that firms and individuals declare all of their overseas assets. It would be appropriate to require them to declare whether they have a financial interest in any supplier, customer or bank with which they do business from Tanzania, but declaring all financial interests is extreme. Firms feel that Tanzanian tax authorities, who are known to extract bribes on a regular basis through repeated audits over 7 years, will abuse such information. The other concern firms have is that the law provides that anyone who has been queried on their taxes cannot travel out of the country while the query is pending. Since queries are often pending for years, this would be a severe impediment to international business.

Finally, there is concern in both government and the private sector, about how this new law was put forward. It was apparently worked out by an IMF consultant with TRA, whereas normally it is the role of the Ministry of Finance to make fiscal policy, and the role of TRA to collect what is mandated. TRA has seemingly usurped the role of the Ministry of Finance, apparently with IMF backing.

In addition, parliament is calling into question the contracts with mining companies and how revenues are being used. In the August 2003 session of Parliament, a number of members questioned the Minister of Energy and Minerals concerning the contracts with major mining companies. The MPs were asking what terms the Minister gave the international mining companies, what the royalty rates were and what contribution mining had made to the economy. This is appropriate—in fact, we had anticipated such pressure when we designed the project.

That is why ESRF is doing a study and workshop on projected mining revenues and how revenues from a depleting resource can be invested to stimulate sustainable development.

Activity 1: Reviewing the Tax Policies

This activity focuses on building tax policy analytical capacity through structured policy dialogue and training. TRA requested training in mining tax auditing from a practitioners point of view. IBI identified an expert from Zimbabwe. Tentatively, training was scheduled for late November and early December. However, due to the events surrounding the new income tax act, the training will most likely be postponed to ensure that any training addresses the realities in the new act.

Similarly the Taxpayers' Manual that we had already tendered as a local contract will be postponed until the final form of the new income tax act is clear. It may be passed by parliament in the November session. If so the next step is to draft instructions on its application. This may take months.

IBI conducted training with TRA staff focused on developing the website for easier public access. Included in this training was developing a simple system to post forms and documents onto the website. TRA will undertake website updating in the next quarter.

Activity 2: Reviewing Government Policy and Plans for Utilizing Income from Mining

The ESRF draft study was reviewed by IBI and ESRF staff during the week of 13 October to 17 October. During this time, IBI made a number of comments to ESRF concerning the inadequacy of the model used to forecast mine life, mine revenues and the actual data being utilized. ESRF is incorporating these edits as well as strengthening the recommendations made by the report. A workshop for members of parliament is tentatively scheduled for November 2003. The goal of the workshop is to inform the current policy debate in parliament about the mining sector. The IBI/ESRF study is timed perfectly to positively impact this debate.

TCM conducted a public education workshop for journalists around the mining sector. The workshop was in two phases on 15 October and 16 October. On 15 October, the TCM firms paid for a mine tour involving visits to the Geita Gold Mine and the Kahama Gold Mine for 20 print, radio and television journalists. These tours were aimed at better informing the journalists about the actual operations of a gold mine. On 16 October, a seminar in Dar es Salaam was held for journalists and members of parliament, sponsored by IBI. The seminar was opened by the Minister of Energy and Minerals Daniel Yona. In fact, he stayed for the entire workshop, which is extremely unusual. The seminar explained the legal and regulatory framework of mining, compared the mining industry in Tanzania to other African nations and highlighted the mining industries contribution to the economy of Tanzania. The 20 print and radio journalists who took part in the mines tour also attended the seminar. The following day, the seminar received coverage in a local newspaper.

Activity 3: Diversification of Economic Activities

Parliament is supposed to approve new regulations to the Mining Act of 1998 so that relinquished claims by large mining companies can be used by small miners. These new regulations are being taken up in the current parliamentary session and a tentatively set to be

enacted by December 2003. This is an important step in providing income-generating opportunities to small-scale miners, who are mainly poor rural residents. It also fuels the rural economy, as the incomes are spent and invested mainly in rural communities and secondary towns. Opening up legitimate mining opportunities should also smooth relations between small miners and large companies, each of which tends to think the other is squeezing its property rights.

The project continues to provide training in value-added skills, which is another area which parliament, the Ministry and the press are pressing to see developed. We have focused on gem processing and jewelry-making with gem material mined in Tanzania. During the current quarter, a second set of training activities in wire wrapping and faceting were being planned for November 2003. Ed Sinclair is scheduled to conduct a second wire wrap training for participants in Morogoro and William Roberts is set to conduct faceting training in Morogoro.

Activity 4: Addressing Environmental Concerns

The environmental and safety extension work continued to expand its geographic scope with particular concentration on the regions where USAID concentrates. The extension work was temporarily halted by the Ministry of Energy and Minerals reshuffling of extension officers in August 2003. However, once the new extension officers were in place the training and extension work proceeded at pace.

Project Administration

During the period under review, the COP, Director of Training and Project Coordinator participated in the SO9 Team Meeting in Mbeya, Oct. 6-9, 2003. There we saw how synergies could be developed with other projects in the agricultural sector, but also learned that USAID has little prospect of recovering funding for SO9 that was eliminated by USAID/W for FY 2004.

The Project will ask for a no-cost extension from USAID until the end of December 2004. The reason for the no-cost extension is so that all TRA related work can be completed. TRA has requested that IBI not complete a taxpayer's manual until sometime in 2004 after the new income tax act is passed. TRA believes that a taxpayer's manual is critical to the public but feels that the time is not right to produce a manual. In addition, IBI has to conduct training with TRA that the passage of the new income tax act affects. The training is tentatively scheduled for early December, however, this may not occur due to the demands of the new income tax act. IBI will like the leeway to postpone this training and conduct it next year under the auspices of a new income tax act. In this manner, the training dollar of USAID will be maximized.

The Project Office will be closed in December 2003 as currently scheduled. A no-cost extension will only allow 2 activities to be completed and does not allow for additional funds for the project office or staff. Project Coordinator Nyelo and Project Secretary Bukuku will return to the Ministry of Energy and Minerals. A plan will be worked out with USAID to dispose of equipment and vehicles for the project.

Planned Activities

Under Activity 2, ESRF and IBI will conduct a mining investment policy workshop in November 2003. Under Activity 3, IBI will hold a wire wrap training and faceting training in

November 2003.

- D. Technical Support for Procurement and Project Management and Private Sector Participation (PSP) to the Ministry of Water and Irrigation, Water Authority of Jordan and the Jordan Valley Authority, TO #814**
Start Date: August 6, 2001
Completion Date: February 1, 2004
Amount of Delivery Order: \$3,026,845.50

INTRODUCTION

This Quarterly Report presents the activities of the Jordan Technical Assistance for Procurement, Project Management and Private Sector Participation Project during the period of July 1, 2003 through September 30, 2003. The report highlights significant work undertaken and accomplishments realized; outlines major problems encountered, and offers proposed responses to those challenges; and summarizes planned activities for the following Quarter.

PROJECT ACTIVITIES

TAPS Team Additional Members

- Due to the complexity and increasingly demanding work on the legal component of the AWC transaction, two additional members were added to the TAPS legal team: Mr. Jerry Donovan, an expatriate legal consultant, and Mr. Basel Barghouti, a local legal consultant. Mr. Donovan is assisting in the development of the Registration Documents as well as with the Bulk Water Royalty Agreement, the Company By-Laws, and the Shareholder's Agreement.
- A third expert was also added to the team. Mr. Eric Jankel, a corporatization expert has offered the view of a practitioner in the introduction of the private sector perspective in advanced commercial water utilities. Mr. Jankel has proposed a framework of relationships and responsibilities between the Management and the Board of Directors and has proposed a plan of initial steps needed during the implementation of AWC after corporatization.

Project Component Deliverables

- ❖ Institutional Component
 - Organization and Staffing Plan with Accompanying Job Descriptions
 - AWC Compensation and Benefits Plan - necessitated making field trips and holding meetings with local companies in order to develop a plan compatible with the local environment in terms of practicality and viability.
- ❖ Operations and Maintenance Component
 - A new assignment aimed at laying the groundwork for WAJ Aqaba to be able to run its own O&M mandates independently once transferred into AWC came as

continuation of the work within the O&M component and included a technical training needs assessment and the preparation of a comprehensive training package.

- Standard Operating Procedures continued to be developed from last Quarter.
- Terms of Reference - Aqaba Valuation

❖ Financial Component

- A three year budget for AWC is currently being prepared.
- A training program for select WAJ Aqaba employees has been developed in order to enhance knowledge of financial systems. Due to a previously prepared training program for WAJ Aqaba employees under FAS project, TAPS financial training was postponed until mid-October.
- A Financial Strategy “Roadmap” was designed for AWC.

❖ Legal Component

Assignment Agreement

TAPS Team continued working on the revision of the Assignment Agreement with USAID and MWI/WAJ counterparts. Work sessions were held during this Quarter to continue developing AA appendices while incorporating USAID and MWI/WAJ revisions and input.

- An electronic copy of the in-progress version of the AA was circulated to ASEZA and Bechtel on July 16. This was to enable them to start drafting a Development Rights Agreement (DRA).
- HE the Minister was briefed on the progress of the work on the AA during a presentation that took place on July 27, 2003 at the Minister’s office.
- A final draft is scheduled for distribution at the next Coordinating Committee meeting.

Shareholders Agreement (SA)

- On August 17, 2003 the first draft of the SA agreement was distributed to the TAPS Team by a local legal advisor, Mr. Basel Barghouti.
- A preliminary revision by TAPS local team resulted in the following proposed amendments:
 - The inclusion of a statement that would delegate responsibility of the General Manager to ensure full implementation of the Business Plan after approval by the General Assembly. In order to achieve this primary role, the General Manager should be granted full powers by the General Assembly and Board of Directors, though he would also report to the Board of Directors.
 - Prior notification of the intent to transfer shares should be approved by respective parties.
 - Commitment by the new shareholder to abide by the original agreements signed between the original parties.
 - Mutual agreement on the shares value.

- Mr. Barghouti prepared a document with Heads of Terms for the SA taking into consideration input from the concerned parties. The document was presented and discussed at the 8th AWC CC meeting.
- ASEZA, with assistance from IBLAW and ATASP was scheduled to review this document and provide input during the 9th AWC CC meeting.

Development Rights Agreement (DRA)

- In the 8th AWC CC meeting, Mr. Bilal Bashir, ASEZA's Commissioner for the Environment, reported that a draft of the document would be discussed during the 9th CC meeting.
- Mr. Bashir sent a BAR chart to TAPS on September 3, 2003, outlining the steps needed to develop the DRA. Early November was the given timeline for the completion and distribution of the first draft of this document.

Bulk Water Royalty Agreement

- Mr. Donovan, TAPS expatriate legal advisor, began drafting this document to be completed in late October.

Article of Incorporation (AI) & Memorandum of Association (MA)

- Drafts of these Registration Documents were prepared by the TAPS legal team and circulated at the end of September to ASEZA and to AWC CC members for review and comments.

Company By-Laws

- TAPS local and expatriate consultants continued developing the numerous components of AWC By-Laws including: Personnel Procedures, Procurement Procedures, Customer Service Procedures, Board of Directors Procedures, and Standard Operating Procedures. This document was scheduled to be ready in its draft form in November.

MEETINGS

• AWC CC Meeting No.7

This meeting was held in Aqaba on July 20, 2003 and the following items were discussed:

- The structure of the Assignment Agreement (AA).
- The status of the legal steps in the implementation of AWC.
- An overview on the status of the Development Rights Agreement (DRA) under preparation by ASEZA.
- Development of a Shareholder's Agreement.
- The timeline for the implementation of AWC.

- **Presentation to the Minister-**

This briefing was held on July 27, 2003 at MWI and included the following:

- HE the Minister was updated on the progress of TAPs Team.
- Individuals were identified for the three most important positions including: *General Manager, Deputy General Manager/Technical Manager, and Finance & Administration Manager*. A letter to this effect was sent by the PMU director to ASEZA and Bechtel upon the instructions of the Minister.

- **AWC CC Meeting No. 8**

This meeting was held on August 28, 2003 at MWI and included the following:

- Present the AWC draft Shareholders Agreement.
- Provide an overview of the status of the Development Rights Agreement.
- Provide an update on the status of the Legal Implementation of AWC.
- Present the FAS (Financial and Accounting Systems) project and its applicability to AWC – a semi-centralized system with the flexibility of selecting the de-centralized option in the future was agreed upon.
- Provide an overview of the Progress of Technical and Financial Components of AWC.
- TAPS took the responsibility of preparing a timetable outlining the steps necessary for the future transaction, with a clear indication as to which activities were TAPS' responsibility and which ones were WAJ's.

- **Presentation/Meeting with HE the Minister of Water and Irrigation**

This presentation was held on September 29, 2003 at MWI and included the following:

- The TAPS Team updated HE the Minister and his Staff on the Project status and in addition recommended activities to be completed following the registration of AWC.
- It was agreed upon that core documents and Company Registration would be in place by January 2004 and that the Company would be fully operational by April 2004, with a transition period in between.

- **Workshop in Aqaba**

A workshop was held on September 22-23, 2003 for WAJ Aqaba employees in which an organizational staffing chart and associated job positions, as well an incentive and benefit plan was discussed at length. Valuable remarks and feedback were obtained from the participants and will be incorporated into the relevant sections of the reports.

ACTIVITIES FOR NEXT QUARTER

- Continue working on the development and coordination of core legal documents.
- Continue to develop the institutional, financial, legal and technical Project components.

E. USAID/Moldova Financial Management Training and Advisory Activity (FMTAA), TO #815

Start Date: September 1, 2001

Completion Date: March 31, 2004

Amount of Delivery Order: \$2,212,570.00

HIGHLIGHTS OF ACHIEVEMENTS TO DATE

Since startup in September 2001, the Financial Management Training & Advisory Activity has provided training to over 7,300 accountants, auditors, and university faculty members in 422 seminars. To date, the Financial Management Training and Advisory Facility has generated gross revenue of over 450,000 Moldovan Lei (\$32,000), deposited to the ACAP Development Fund bank account. The project has assisted in the development and publication of 6 guides, "Practical Guidance to Accounting Principles and Financial Accounting," "Cost Accounting Guide," "Guide for the Accountant of an Entrepreneurial Agricultural Cooperative," "Theoretical Guidelines and Practical Materials on Accounting," "Basics of Accounting," and "Financial Accounting" (2nd revised edition). The project has also provided advisory services on various issues related to accounting and taxation to 230 practicing accountants. Eight CPCs (Certified Professional Accountants) qualified during ACAP's December 2001 examinations. The Association of Professional Accountants and Auditors of Moldova achieved a total number of 366 members as of September 30, 2003. Additional details on these and other project achievements are discussed below.

SPECIFIC ACTIVITIES

This section covers progress against six deliverables as stated in the project scope of work.

1. Establish Financial Management Training and Advisory Facility (Task 1).

The Financial Management Training and Advisory Facility (FMTAF) was established in November 2001.

2. Provide training in financial and managerial accounting, audit engagement procedures, internal audit, non-profit accounting, and accounting information system (Task 2).

- The USAID/FMTAA was shutdown from August 16, 2003 through September 14, 2003 for summer holidays. The project resumed its operations on Monday, September 15, 2003.
- FMTAF continued the marketing campaign in the mass media promoting its seminars/training courses and advisory services during July - September 2003.
- During July - September 2003, 5 seminars were conducted in Chisinau, Drochia, and Calarasi. 242 participants, including faculty members of higher educational institutions, accountants, and auditors, were trained in financial, managerial, tax accounting, audit, and financial management.
- During the period of July - September 2003, FMTAF generated gross revenue of 32,156 Moldovan Lei (\$2,417). The ACAP Development Fund bank account, to which all fees paid

to FMTAF are deposited, is reconciled monthly, with all disbursements approved by and coordinated with the Chief of the Party and the Board of Directors of the ACAP.

- On September 30, 2003 FMTAA started a beginners' course on "Principles of Accounting and Taxation" (150 hours) in Romanian and Russian. 15 students are currently attending the Romanian version, and 21 the Russian version.

3. Assist the Academy of Economic Studies of Moldova (AESH) in its accounting and audit curriculum reform effort and strengthen its partnership with the University of Nebraska at Omaha (UNO) (Task 3).

- Four AESH faculty members, Rodica Trohin, Daniela Zaharia, Diana Fortuna, Harea Ruslan, traveled to UNOmaha for the period of June 6 - July 12, 2003 to attend the Summer Semester classes. While there they attended a variety of courses in accounting and business disciplines met with UNOmaha faculty to discuss methodology of teaching and accounting curriculum, and visited local businesses. In addition meetings on accounting research that will lead to joint research projects were also planned.
- 10 AESH professors visited UNOmaha during July 4-12, 2003. During that period the professors participated in the following activities:
 - Presentation of UNO Accounting Program, by Jack Armitage, Richard File, Richard Ortman, Scott Copple, Burch Kealey, and Laura Ilcisin;
 - University Library presentation and tour;
 - Presentation of UNO International Programs, by Tom Gouttierre, Dean of the faculty of International Studies;
 - Presentation of CBA core curriculum, by Professor Janet West;
 - Presentation of the Finance Department concentrating upon the methodology of teaching financial statement analysis and financial management. The presentation was made by Professors David Volkman (Chair of Finance Department), and Graham Mitenko;
 - A tour of New World Pasta food processing plant and of their accounting department.The main goal of this faculty exchange program was to enable the professors of both AESH and UNOmaha to share their experiences in methodology of teaching, accounting curriculum reform, research activity and education process administration. AESH professors had the chance to attend and participate in the following courses: Principles of Accounting I, Managerial Accounting, Management Information Systems, and Financial Management. During their stay at UNOmaha, AESH professors reviewed accounting textbooks, donated by UNOmaha faculty, and selected approximately 50 textbooks, which they believe will be useful for AESH students.
- Two UNOmaha professors, Dr. Louis Pol, dean of the UNOmaha College of Business Administration, and Dr. Sufi Nazem, International Programs director, visited AESH, FMTAA project, ACAP, Moldo-American Chamber of Commerce, and the Ministry of Education, during August 24-27, 2003.
- The roundtable discussion on results of AESH professors' trip to UNOmaha took place on August 26, 2003 at AESH. The certificates on successful completion of the Summer Session course held at UNOmaha were handed to the 2002 and 2003 participants of the Summer Exchange Program by Dr. Louis Pol, Dean of the UNOmaha College of Business Administration, and Dr. Viorel Tsurcanu, Dean of Accounting faculty at AESH. During the

meeting the participants of the UNO-AESM Summer 2003 Exchange Program shared their experiences and answered numerous questions posed by their colleagues.

- A roundtable on the presentation of the 8th edition of the “Auditing” textbook by Alvin A. Arens and James K. Loebbecke, took place at AESM, on September 30, 2003. East-West Management Institute (EWMI) and the local Soros Foundation translated, published and donated this textbook to FMTAA for its distribution. Over 120 participants from various Moldovan universities and colleges, the Ministry of Finance, Academy of Economic Studies of Moldova, the Association of Professional Accountants and Auditors of the Republic of Moldova, PricewaterhouseCoopers, various audit firms, and the media attended. Each participant of the roundtable was given on behalf of FMTAA a copy of the new manual. In addition, the director of the ACAP certification committee - A. Nederita, presented the new CIPA program. The participants of the roundtable expressed a great interest in this program.
- The Romanian version of the 2nd revised edition of the “Financial Accounting” was distributed for sale to Universities and bookstores and donated to AESM library. In addition, work on the Russian version of this manual has begun.
- The new manual “Basics of Accounting” in Russian elaborated by AESM accounting faculty professors V. Tsurcanu and E. Bajerean was printed in July and will be available to AESM students for the fall 2003 semester.
- Accounting faculty professors continued their work on the following textbooks: “Tax” and “Comparative Accounting”.

4. Provide financial management advisory services to enterprises to improve financial management capacity (Task 4).

During July - September 2003, 5 *pro bono* consultations on financial and tax issues were provided to 5 accountants of private sector enterprises.

5. Promote Use of Accounting Information Technology (Task 5).

During July – September 2003, the Task 5 Team:

- Provided training in Accounting Software, resulting in:
 - 22 professionals trained (40 hour course) in the use of Accounting Software 1C both through lectures and hands-on training;
 - 35 professionals trained in Basic Computer Skills;
- Performed general maintenance of FMTAA and ACAP information system.
 - Performed physical inventory FMTAA hardware on site and off site
 - Tested beta version of inventory tracking database
 - Updated anti-virus definitions.

6. Financially support ACAP in staff salaries, office rent, and updating the certification program; and develop a partnership between ACAP and a US, Canadian, or Western European accounting and audit SRO (Task 6).

- Staff salaries and rent of ACAP were paid for the period of July - September 2003.
- ACAP achieved a total number of 366 members as of September 30, 2003.

- The working group for the development of the Accounting Law developed the first draft of the law, which shall be discussed during the next ACAP Board of Directors meeting.
- ACAP Board of Directors prepared a proposal for potential founders of the Foundation for the Development of the Accounting Profession in the Republic of Moldova. It outlined the main features, activities, and objectives of the future foundation. The meeting with potential founders of the Foundation for Accountancy Profession Development took place on August 25, 2003. The potential founders - ACAP, KPMG, PWC, and AESM - agreed with ACAP's initiative and decided to start the development of the constitutive documents. The next meeting will be scheduled after all founders will review the foundation's charter and agreement.
- 2 ACAP trainers traveled to Kiev, Ukraine to take the FA1 and MA1 CIPA exams, and 2 ACAP trainers, will attend the MA1 and FA1 "Train the Trainers" course organized in Kiev, Ukraine by the Ukrainian Federation of Professional Accountants and Auditors and Ukrainian Accounting Reform Project.
- Work on the local modules for "Taxation" and "Business Law" exams of the CIPA program was finalized.
- ACAP Chairwoman, Marina Selaru, participated in the IASB conference: "The World Standards Setters Meeting", which took place on September 22-23, 2003 in London, England.
- ACAP obtained ICCAA full membership in September 2003. The first Certified Accountant Practitioner (CAP) exam is scheduled for November 21, 2003.

F. Romania Environmental Management Services, TO#816

Start Date: Sept. 30, 2001

Completion Date: January 31, 2004

Amount of Delivery Order: \$1,030,522

GENERAL ACCOMPLISHMENTS

The major events during this period were the Public (former Dissemination) Seminars. Two Public Seminars were held. The first seminar took place in Oradea, on September 10. Participants were from Cluj and Bihor judets area and included representatives of industries and of Environmental Guard. All the plants targeted by RAJAC Cluj for work in action groups were invited. In Bihor, the invited companies were significant polluters, considered as such and recommended by the judet EPA and the Environmental Guard, the two environmental enforcement agencies. The second seminar took place in Sinaia, on September 12, 2003. Participants to this seminar included representatives of central and local government and potential participant industries in the SEPIC Project. The Mayor of Sinaia made a speech and attended the first half of the first day.

The partner organizations presented successful case studies, demonstrating environmental and financial benefits obtained following the implementation of EMS and P2. A representative of Munca Invalizilor, one of the plants in the action groups developed by RAJAC, also presented a case-study. The Chemonics Project Manager delivered a presentation on

environmental competitiveness. Project staff and representatives of the partner organizations answered questions from the participants.

The Director of the Privatization Office in the USAID Romania Mission attended the seminar in Sinaia and the EMS & P2 Project CTO attended the seminar in Oradea.

The demonstrated results caught the interest of the participants who made comments and asked questions. Also, requests for assistance were received. The representative of the Ministry of Agriculture, Forests, Waters and Environment highly praised project results and suggested that the project be extended to include industries discharging hazardous pollutants, to support Romania's integration in the EU.

SPECIFIC ACTIVITIES

Phase III - Rollout and Dissemination

Task III.2: Dissemination. Two regional seminars were organized during the last phase of the project. Their content, locations, format, audience, and other details were determined, mainly at the workshop in the previous task. Pilot organizations made presentations. The seminars widely disseminated information throughout Romania about their experiences and findings with EMS and P2. The seminars were conducted by the project staff and staff of the pilot enterprises and regions. Workshop participants included representatives of the Ministry of Agriculture, Forests, Waters and Environment, Ministry of Economy and Trade, local Environmental Guard and EPAs and industry.

G. East and Central Africa Global Competitiveness Hub, TO#819

Start Date: September 16, 2002

End Date: September 15, 2003

Amount of Delivery Order: \$1,499,933.00

Task Order #819, East and Central Africa Global Competitiveness Hub, was completed on September 15, 2003. The final report is attached.

H. Bolivia Trade and Competitiveness Hub, TO#820

Start Date: January 01, 2003

End Date: December 31, 2004

Amount of Delivery Order: \$6,357,491.00

Introduction

This is the third quarterly report of the **Bolivian Trade and Business Competitiveness (BTBC)**

project. BTBC was originally obligated through Contract No. PCE-I-00-98-00015-00, Task Order No. 820, signed between USAID/Bolivia and Chemonics International, Inc. on December 31, 2002. The project began at the end of January 2003 and its estimated ending date is December 31, 2004.

Objectives and Tasks

1. Improvement of the business environment and operative conditions in Bolivia through the elimination of systemic constraints in order to improve competitiveness and assist economic growth and exports. Factors that will contribute in creating this productive “environment” include:
 - Effective institutional, legal, administrative and regulatory conditions;
 - Development of human resources, especially in the area of foreign trade and negotiation, and;
 - Coordination and collaboration between the private and public sectors, especially in those efforts oriented to the use of concessions offered by key commercial agreements like the ATPDEA.
2. To stimulate competitive production of goods and services and private sector exports, particularly in the sectors of wood, textiles, leather and jewelry. The approach is practical, geared towards generating quick and significant results, clearly surpassing defined obstacles to cover existing market demands. This will be achieved by creating linkages between producing companies and market opportunities at the national, regional and international level and by providing Bolivian SMEs with carefully targeted technical assistance in production, management, and marketing.
3. To define, develop and analyze long-term interventions to improve the Bolivian trade capability and competitiveness at a larger scale.

The objective of these activities is to help Bolivia reduce the poverty level through greater investment and creation of employment, as a result of improvements in productivity and access to external markets.

Most important achievements during the period

Improvement of Business Environment

- Trade Capacity Building Strategy

BTBC financed the development of Bolivia’s Trade Capacity Building Strategy under the framework of the Hemispheric Cooperation Program for FTAA’s Small Economies. The document was completed in August and presented to the Vice-ministry of International Economic Relationships (VREI) and to the donor community, to excellent reviews. It was also formally presented to the Andean Community of Nations (CAN), where it was considered the best of the region,

according to the USAID representative who attended the event.

- Patent Cooperation Law (Law number 2498)

BTBC worked with the Ministry of Economic Development towards the approval of a law ratifying Bolivia's adhesion to the international Patent Cooperation Treaty. Our efforts were successful and the law was approved by the Bolivian Congress during the reporting period. The approval of this law has been decisive to improve Bolivia's status in terms of IPR compliance under the USTR Special 301 Watch List.

- Intellectual Property Rights Legislation

The consultant hired to analyze and clarify which legal norm is being applied in Bolivia in the field of intellectual property rights has made major advances in fulfilling the scope of work. Once the study is finished, it will be published and distributed among the judiciary, industrial and commercial communities, in order to promote compliance with intellectual property rights.

- FTAA Communications Strategy

As part of its efforts to generate effective private/public dialogue, BTBC developed terms of reference and tendered out the design of a communications strategy to objectively inform and promote a serious public debate regarding Bolivia's participation in the FTAA. The strategy design is underway and shall be concluded in early November, 2003.

- Publication of ATPDEA Information Booklets and Investment and Exporting Guides

BTBC funded the nationwide publication of eight booklets providing information on the potential benefits of the ATPDEA for local producers, and ways to take advantage of them. These booklets were distributed every Sunday during eight weeks along with the most read daily newspapers in La Paz, Cochabamba and Santa Cruz. BTBC also provided financial backing to the Ministry of Economic Development for the publication of new editions of the *Guide for Exporters* and the *Guide for Investors*.

Support to the Productive Sector

Textiles/apparel

- BTBC worked closely with the Camara Nacional de Exportadores Bolivianos to help prepare and financially assist the participation of 18 small and medium-sized companies in the Magic Marketplace Fair in Las Vegas. The Bolivian participation in this event was quite successful, with immediate sales of more than \$500,000, which are expected to increase substantially in the following months.

- BTBC provided technical assistance to Confecciones Record, a jean manufacturing company in Santa Cruz, for the reconditioning and layout of a new industrial premise, which will allow it to expand its production and exports and increase its workforce by 100-130 new workers.
- Corcel, an apparel manufacturing company from Cochabamba, received technical assistance from BTBC in layout, business planning and market research. Thanks in part to our efforts it obtained a financial credit for \$60,000 to expand production, and successfully embarked its first shipment to Chile.

Wood-products

- Jointly with the Centro de Promoción Bolivia (CEPROBOL), BTBC started working with five manufacturers of wooden furniture, doors and windows in the selection of samples, design of brochures and contacting of potential buyers in anticipation of their participation in the Wood Fair in High Point, North Carolina, during the month of October.
- BTBC has begun cofinancing with Fundación para la Producción (FUNDAPRO) a feasibility project to set up one or a series of Wood Drying and Storage Centers. This project is generating great interest among the secondary wood products industry, which requires a more reliable, diverse and better quality supply of wood.

Leather goods

- BTBC has initiated technical assistance to Macaws, a dynamic leather goods manufacturer based in Cochabamba, through three specialized consultants: two in ISO and OSHAS quality norms, and one in production management systems. We are also financing an upholstery expert who will train approximately 80 workers in this field, having recently graduated the first group of 23 apprentices. With this help from BTBC, Macaws has felt confident enough to accept additional orders from clients such as Samsonite and Bellagio (leather cases for PDAs), and considers it can create 500 new jobs and \$1 million more in exports by the end of 2004.

Jewelry

- The BTBC paved the way for industrial jewelry producer Exportadores Bolivianos to transfer a silver-casting operation from Mexico to La Paz, which will generate 150 new direct jobs and \$8 million in additional annual exports. The new plant was inaugurated on September 23rd, in presence of Jorge Torres, then Bolivian Minister of Economic Development; Otto Reich, White House Envoy for Latin America; Adolfo Franco, USAID Assistant Administrator for Latin America and the Caribbean; David Greenlee, Ambassador of the United States, and Liliana Ayalde, USAID Mission Director.

- In addition to providing consultants for Exportadores Bolivianos in the area of inventory systems and e-coating, BTBC is co-financing with the company a training program for workers to be employed in the new silver-casting plant. Seventy people have been trained this quarter, and 80 more will be trained in the following months.

Expanded Access to Capital for SMEs

- BTBC is supporting the Bolivian government in its efforts to develop mechanisms by which small and medium enterprises can obtain expanded access to investment and working capital. As part of this initiative, BTBC hired a specialized consultant in the apparel manufacturing sector to work with SMEs in helping them develop business plans to be used in the fundraising process. The consultant worked with 18 SMEs, successfully completing 10 Business Plans which were presented to financial institutions, requesting a total of \$1.1 million. Of these plans, 7 have received approval from financial institutions, to the amount of approximately \$250,000.
- At the request of the Ministry of Economic Development, BTBC acceded to subcontract a feasibility study for a Finance Fund that could spark investment in sectors with export potential. The study was completed this quarter and submitted to the Ministry for its implementation.

Major Obstacles Faced

At the time this report was being written, Bolivia suffered serious social upheavals (October 12-17) which resulted in dozens of deaths, severe economic losses, and the resignation of then President Gonzalo Sánchez de Lozada. These events damaged Bolivia's image abroad and have put at risk many export operations, as well as new investment, both foreign and domestic.

The change in government authorities also represents a major challenge for BTBC, since projects that were already approved or under way – particularly with the Ministry of Economic Development - must be reassessed and the priorities of the new authorities taken into account.

Aside from the challenges pointed out above, which arise from social and political circumstances outside our control, BTBC faced the following significant obstacles during 3Q:

- Despite BTBC's support to 18 SMEs in the apparel sector for the development of business plans, which are then presented to a special fund created to support these types of companies (Fondo para Maquicentros y Encadenamientos Productivos), only three credits and approximately \$100,000 have been disbursed to date, a tiny fraction of the \$4 million available in this fund. One of the main reasons for this low rate of success is that many SMEs cannot come up with the guarantees required by the financial institutions that operate the fund.

- Several apparel companies that made good commercial contacts at the Magic Trade Fair and are receiving purchase requests, are having trouble meeting those requests because of lack of working capital and/or of raw materials that must be imported into Bolivia. In particular, there is a shortage of both Bolivian and imported cloth.
- The surge in technical assistance projects handled by BTBC during this period translated into the need to identify and hire a large number of short term consultants. This created somewhat of a bottleneck within BTBC and our supervising offices in USAID/Bolivia, which led to some delays in approving candidates and their salaries.
- Differences of opinion within the private sector have delayed our efforts to strengthen the Instituto Boliviano de Comercio Exterior, which is considered to be the best candidate to represent private interests in foreign trade negotiations. Similarly, differing positions within the GOB delayed our project to strengthen the organization of the Servicio Nacional de Propiedad Intelectual (SENAPI).

Major Planned Activities for Q4

The events of October have led the new government authorities, as well as the donor agencies – including USAID – to reevaluate their priorities, in order to try to counteract the causes that produced widespread social discontent.

At this point, USAID/Bolivia is asking BTBC to pay special attention to its projects in El Alto, the suburb of La Paz, where the October clashes originated and were most violent. Indeed, BTBC is already supporting several companies in El Alto, particularly in the textile/garment sector. Additionally, BTBC will help organize and will provide partial funding for the Feria Exposición El Alto (FEXALT), to be held December 4-14. We are currently working with the GOB, the private sector and other donor agencies, to ensure that this event is a success and shows the world the productive, peaceful and hard-working side of El Alto.

Other major planned activities for Q4 include:

- Initiating activities for an ALCA Information Campaign, once Chemonics and USAID complete the agreement to extend BTBC's mandate and resources in order to carry out this task. In Q4 we will complete the communications strategy for this information campaign, will hire the person who will coordinate it, and will initiate procedures to subcontract with one or more public relations firms to carry out the tasks required.
- Two major studies related to trade liberalization will be started: one will measure the potential sector impacts – both positive and negative - of Bolivia joining the FTAA; the other will analyze the behavior and future possibilities of the soy sector, which presently represents around 25% of the value of all Bolivian exports.

- A two-day seminar will be held with key actors of the government, private and international donor sectors, in order to brainstorm about ways to increase Bolivian competitiveness in the manufacturing sector. We hope that the results of this seminar will provide useful input for designing the second phase of BTBC.
- Work will begin on the institutional strengthening of the Servicio Nacional de Propiedad Intelectual (SENAPI). We expect to have international consultants in Bolivia working on this project, before the end of the year.
- In Q4 we expect to have ready a major study on Intellectual Property Rights in Bolivia, which will clearly establish what norms apply in this country, thus facilitating the correct application of the law and improving Bolivia's image abroad.
- Also in Q4 we expect that our support to specific companies will yield some significant results, including the inauguration of two new garment plants, one in Santa Cruz (Confecciones Record) and another in Cochabamba (Texco); wood drying facilities in San Ignacio (Grupo Roda), and one or two training courses for leather goods and upholstery in Cochabamba (Macaws).
- BTBC is supporting the participation of five wood furniture companies in North Carolina's High Point Fair (October 16-22). Despite the social upheavals of October, it is expected that this participation will lead to new business for these companies and result in expanded employment and exports.

Financial/Budgetary Execution

The project's budget execution, both cumulative and for the reporting period, is reflected in the following table:

| <u>Financial/Budget Summary</u> <u>(July – September, 2003)</u> | |
|--|--|
| <i>Contract Budget</i> | |
| | |
| <i>Expenditures this Quarter</i> | |
| | |
| <i>Expenditures to Date</i> | |
| | |
| <i>Remaining Balance</i> | |

During the reporting period, BTBC spent a total of \$645,055, representing a significant growth over the level of the previous quarter (47%). This performance is consistent with the increased level of activity that the project has reached through the implementation of several activities planned and developed during the first two quarters of 2003. Even though this is an important

accomplishment, according to our projections the level of budget execution should keep growing, achieving its maximum levels during the last quarter of 2003 and the first two quarters of 2004. This behavior is consistent with the type of activities BTBC is implementing, which require an extended planning and fine tuning process before they are ready for implementation.

During the month of September BTBC performed a budget revision and projected its expenditures through the end of the project's lifespan, in accordance to the activities which have already been approved by USAID for implementation. As a result of this exercise, it has been established that, given its portfolio of activities, our project has between 80 and 90% of its budget already committed. This does not include potential activities in the development stage.

Level of Effort

The summary of the level of effort used by the project, both cumulative and for the reporting period, follows:

| <i>Level of Effort (Person Days) Summary Chart</i> | |
|---|--|
| <i>Total Contract LOE</i> | |
| | |
| <i>LOE Expended this Quarter</i> | |
| | |
| <i>LOE Expended To Date</i> | |
| | |
| <i>Remaining LOE</i> | |

Following the same pattern as our budget execution, the level of effort used by our project during this quarter has doubled in relation to the previous quarter. This also responds to the increased number of activities being currently implemented by the project. The projected level of effort will continue to grow significantly, reaching its highest levels during quarter four of 2003 and quarters one and two of 2004.

Given the current use of LOE and the projections based on activities already approved by USAID/Bolivia, it is expected that the minimum level of effort required by the contract will be amply surpassed.

BTBC Budget Execution

Summary of Approved Projects & Administrative Costs (I)

| <i>Cost Category</i> | <i>2003</i> | | | |
|-----------------------------|-------------------------|-------------------------|-------------------------|---------------------|
| | <i>Quarter 1</i> | <i>Quarter 2</i> | <i>Quarter 3</i> | <i>Total</i> |
| Level of Effort | | | | |
| Support Staff Salaries | | | | |

I. Bosnia Fostering an Investment and Lender-Friendly Environment (FILE), TO#821
Start Date: July 29, 2003
End Date: September 30, 2006
Amount of Delivery Order: \$9,964,761.00

A. Background

Chemonics International, Inc. and its subcontractors, Deloitte Touche Tohmatsu Emerging Markets Group, Ltd. and the National Center for State Courts, were selected to implement USAID's Fostering an Investment and Lender-Friendly Environment commercial law project. The project, which will run approximately three years, covers a variety of commercial law issues, including bankruptcy and collateral law, court administration, and World Trade Organization (WTO) accession. Project activities are described more fully in the related Task Order (TO) and in Chemonics' technical proposal.

Among the systemic obstacles to doing business in Bosnia and Herzegovina (BiH) and promoting private sector investment is the collateral law system, which is central to the development of any economy. Many changes and programs are underway to introduce more effective and efficient systems into the collateral law regime, but much remains to be done. At present, the secured lending necessary for deepening and broadening sources of finance is underdeveloped and financial institutions will not increase their lending until the collateral law system is functioning well. Until reasonable assurances exist that situations of loan default can be addressed quickly and efficiently through the mechanisms of a healthy collateral law regime, few arm's-length loans will take place and the economy will remain relatively small.

Effective collateral law regimes are characterized by efficient court systems that enable lenders to enforce loans and security interests in a timely, efficient and predictable manner. Relying on BiH courts to enforce collateral law rights is currently fraught with risk and represents a potentially significant cost for a lender. While recent and/or pending changes to the civil procedure codes and laws on enforcement of judgments in the Federation and Republika Srpska (RS) should create greater efficiencies, these changes must first be fully understood and implemented.

Effective collateral law regimes are characterized by easy and reliable registries of moveable and immovable property from which lenders can easily identify and verify security interests in pledged assets. Modern land and pledge registry systems are currently being created and introduced into BiH's collateral law regime. Once well-functioning registries are established, both borrowers and lenders will need to understand how to utilize these tools to make capital flow to investments that yield the best returns.

BiH's bankruptcy regime is also underdeveloped. When an enterprise fails, in whole or in part, the BiH economy is not well served by letting the business continue to hemorrhage capital. Rather, it is the efficient restructuring or liquidation of such businesses that will promote economic health by freeing capital to flow to better investments. Because BiH does not currently have an efficient and fair process for bankruptcy, very few restructurings or liquidations have taken place.

While the Federation and RS have enacted new bankruptcy laws, trustees, judges, other bankruptcy practitioners and businesspeople must understand their role in promoting economic efficiency through the swift and equitable resolution of business failure. They must also have access to, and the opportunity to use and adapt, analytical tools and guidelines to establish and improve their work.

Similarly, BiH needs to become a stronger player in regional and international trade if it hopes to energize the private sector. WTO accession signals a country's readiness for significant international trade. However, the experience of BiH's neighbors, such as Macedonia, teaches that accession is a beginning, not an end. Implementing the official commitments that qualify a country for accession is the challenge of transforming the legal and regulatory trade environment, the accepted business practices, and the enforcement regime to a level deemed acceptable to countries engaging in substantial cross-border commercial transactions. Increased trade capacity, and in turn economic growth, is the incentive for pursuing accession that must remain central to the process at all times.

In addition, it is important to streamline the court system's ability to address commercial disputes. Business people need to trust that courts will resolve disputes efficiently, fairly and in a timely fashion. Predictability and finality must be hallmarks of the operating justice system, or some members of the business community will rationally exploit the system's inefficiencies. Courts operating pursuant to established internationally recognized norms not only fix problems, they deter problems from the beginning. Currently, BiH's courts are labor and paper intensive and procedurally dense. One result has been the build up of a tremendous case backlog, which undermines the threat that contract and legal enforcement should play in maintaining an efficient business environment.

B. Project Activities

Each of the following sections corresponds to a TO component. Within each section, FILE describes the specific activities undertaken and accomplished during the reporting period. Initial project activities were directed towards meeting deliverables required under the TO either in the reporting period or later in calendar year 2003.

Collateral Law

1. **Background.** The lack of clear title and resultant illiquid and non-transparent markets impede registration, sale, purchase and financing of real property. The major problems with enforcement include the absence of functioning land and pledge registries; cumbersome, time-consuming enforcement procedures that are heavily dependent on property appraisals bearing little or no relationship to fair market value; the court system's reliance on overburdened enforcement judges; the judiciary's general lack of understanding of the needs and values of a market economy; and poorly equipped courts. Substantial reforms are under way to reduce the existing legal uncertainty with respect to secured transactions. New laws have been enacted or are in process, including land registry laws, laws on registered pledges of movable property, laws on enforcement of judgments, laws on real property, laws on obligations, laws on notaries, and civil procedure codes. Modernized land and pledge registries are being created to record interests in real and movable property, respectively.

2. **Activities.** FILE's activities in September marked the beginning of its assistance in creating an asset-based lending and foreclosure system characterized by the prompt and fair enforcement of judgments.

a. **Development of a detailed workplan for the period ending December 31, 2003.**

Section VI(A) of the TO obligates FILE to submit a detailed collateral law workplan by October 8, 2003 for the designated period. During the reporting period, the FILE team participated in an intensive team-building and workplan-drafting session, as further described below. Session outcomes included the identification and elucidation of specific, targeted activities aimed at creating a lending and foreclosure system characterized by timely, efficient and fair enforcement of judgments, as more fully described in the workplan.

b. **Development of a Stakeholder Advocacy Group.** Section VI(A) of the TO further requires FILE to identify an acceptable stakeholder advocacy group and create a plan for its development and sustainability. This deliverable result is expected by November 7, 2003. During the reporting period, FILE identified relevant stakeholders and planned to establish a continuing dialogue among interested institutions, groups and individuals. FILE will meet with potential advocacy group members in October and begin planning for the group's development and sustainability.

Identifying an advocacy group and planning for its development and sustainability are achievable short-term goals. However, FILE believes that achieving the "buy-in" of such an advocacy group - so that it is actively involved in designing and implementing training and educational programs and in developing implementation resource materials - is a long-term goal that will greatly benefit from future actions, such as the appointment of commercial judges and the creation of commercial divisions. Similarly, FILE expects that the membership in and goals of the advocacy group will necessarily change from time to time, with continuing membership being incumbent upon active participation and the goals being revised in response to then current needs. Thus, FILE anticipates that the group identified and the plans created by November 7th will be periodically reevaluated and revised to ensure sustainable strategic planning and development.

c. **Meetings with appropriate Ministry officials.** FILE is tasked with meeting Ministry officials charged with responsibility for collateral law issues and reaching agreement relating to the provision of technical assistance. This deliverable result is expected by December 8, 2003, pursuant to Section VI(A) of the TO. USAID and FILE have agreed that initial meetings with Ministry officials will be arranged by USAID.

During the reporting period, USAID and FILE met with Zemaludin Mutapcic, Assistant to the Federation Minister of Justice. FILE and USAID described FILE's goals and contemplated activities, with particular focus on implementing BiH's collateral and bankruptcy regimes. Mr. Mutapcic was extremely receptive to FILE's offered assistance, and provided insightful contextual information on several related implementation issues. Additional meetings are planned to keep the Ministry of Justice informed of project developments and to enlist the Ministry's support. A similar meeting has been scheduled in October with the RS Minister of Justice, and other Ministry officials will be identified and approached in the coming months.

d. Training For Judges, Lawyers, and Others on Collateral Laws and Related Laws. A core component of FILE’s collateral law program is training judges, attorneys and other interested parties on the collateral law regime and related laws. Significant preparatory work must be done before training modules can be designed and trainings conducted. During the reporting period, FILE began planning a “training needs assessment” of stakeholders interested in collateral law matters and enforcement procedures. The assessment will include the distribution and collection of a detailed questionnaire to solicit information concerning past training practices, understanding of the current collateral law regime, and availability of resource and practice materials. The questionnaire will be tailored, as needed, to activities of each stakeholder group to ensure the accuracy and validity of data collected.

Building towards the assessment, FILE began collecting and creating a library of current and proposed laws and regulations, as well as reports, assessments and other materials relevant to the collateral law regime in BiH. These materials will provide a reference library for FILE and other interested parties.

In addition, FILE began meeting with other assistance providers to gather information on reform initiatives and assess whether such providers could become “implementing partners” on FILE’s programs. In this regard, FILE met with representatives from several USAID-funded projects - the Pledge Registry Project (PRP), the Business Finance (BF) project, the Financial Sector Business Advocacy & Training (FSBAT) activity, and ABA/CEELI – to discuss respective projects and explore cooperative opportunities. Several such opportunities arose from the meetings. For example, FILE and PRP are exploring joint training and public outreach programs; BF personnel have provided critical insights into implementation issues; FSBAT can provide access to a critical stakeholder group, bankers, and FSBAT and FILE are exploring training programs for this group; and FILE and ABA/CEELI are exploring cooperative training programs on civil procedure codes and laws on enforcement of judgments.

FILE also met with representatives from the Office of the High Representative (OHR), the Independent Judicial Commission (IJC), the two Entity-level judicial training centers, the two Entity-level bar associations, the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe and others. These meetings served to introduce the international and local legal communities to the FILE project and to set the tone for cooperative programming. An anticipated outcome of these meetings is the establishment of scheduled regular meetings between projects to promote ongoing cooperation and ensure that future training efforts are coordinated and seek a balance, to the extent practicable, between the efforts and needs of all involved.

Bankruptcy Law

1. Background. Currently, the BiH bankruptcy process is inefficient and time consuming. Moreover, there is a fundamental lack of well-trained judges, trustees and lawyers able to effectively handle the complexities of a bankruptcy proceeding. In addition, BiH courts are burdened by heavy, slowly progressing caseloads and sizeable backlogs. To address these and other related needs, the FILE project will devise and implement a basic core training program for players within the bankruptcy system. This program will address basic corporate finance, bankruptcy concepts, and the

intricacies of the newly enacted Bankruptcy Law. The curriculum can be tailored to the specific obligations and roles of trustees, judges and creditors, and will place particular emphasis on practical skills.

2. Activities.

a. Development of a detailed workplan for the period ending December 31, 2003.

Section VI(B) of the TO obligates FILE to submit a detailed bankruptcy law workplan by October 8, 2003 for the designated period. During the reporting period, the FILE team participated in an intensive team-building and workplan-drafting session. Session outcomes included the identification and elucidation of specific, targeted activities aimed at creating an effective bankruptcy and liquidation regime, as more fully described in the workplan.

b. Meetings with appropriate Ministry officials. FILE is tasked with meeting Ministry, court and other interested officials responsible for bankruptcy and insolvency legal issues, and with reaching agreement relating to the future provision of technical assistance. This deliverable result was expected by September 23, 2003 pursuant to Section VI(B) of the TO. As with collateral law meetings, USAID and FILE agreed that initial meetings with Ministry officials would be arranged by USAID.

At the September 23rd meeting with Mr. Mutapcic, USAID and FILE discussed the project's goals and contemplated activities regarding bankruptcy and insolvency matters. Again, Mr. Mutapcic was extremely receptive to FILE's offered assistance, and provided insightful information on several related implementation issues, particularly with respect to the training needs of trustees and related professionals. Additional meetings are planned to keep the Ministry of Justice informed of project developments and to enlist the Ministry's support. A similar meeting has been scheduled in October with the RS Minister of Justice, and other Ministry officials will be identified and approached in the coming months. Similar meetings were conducted and discussions held with the Entity-level bar associations. Both expressed interest in FILE's future provision of technical assistance.

FILE also met with representatives from the OHR, IJC, the two Entity-level judicial training centers, and the two Entity-level bar associations. The purpose and anticipated outcomes of these meetings were described above.

The courts are a critical partner for future activities. The BiH court system is undergoing a significant reorganization, as further described in the Court Administration section of this Report (below). While it was anticipated that the court reorganization and selection of commercial judges would be substantially completed prior to the end of calendar year 2003, no commercial divisions have been established and no commercial judges have appointed to date. Instead, IJC representatives indicate that only three or four commercial divisions will have been constituted by the end of the calendar year. It is still not known who will serve as commercial judges. Until selection has occurred, it is unclear who will be FILE's working partners within the BiH judiciary. Accordingly, it is too early in the process to reach agreement relating to the future provision of technical assistance.

c. **Developing a basic training module for bankruptcy, insolvency, and related enforcement issues.** Section VI(B) of the TO requires FILE to develop basic training modules by November 7, 2003. As indicated above, FILE team members began reaching out to and meeting with officials and organizations with interests in bankruptcy, privatization, and insolvency issues, as well as enforcement procedures. Such meetings will continue in October and beyond and will serve, among other things, to provide the informational basis for developing the required training modules.

During the reporting period, FILE also began planning a “training needs assessment” of constituencies interested in bankruptcy, insolvency, and enforcement procedures with specific reference to training needs. It also began collecting relevant laws, regulations, and reports. The assessment and bankruptcy materials will be utilized to devise the basic training module.

d. **Developing Basic Program for Bankruptcy Pilot Cases; Shepherd Select Pilot Cases.** The aforementioned deliverable results are required by November 24th and December 8th, respectively. Many issues remain to be resolved in advance of selecting particular enterprises to help through the new bankruptcy process, including how companies will be selected, who will employ the lawyers representing the different sides in the proceeding, in which courts such proceedings will take place, how attorneys and other experts or expenses will be compensated or paid for, and related privacy and confidentiality issues. FILE will continue to discuss these and related issues with USAID and other interested parties.

e. **Conduct a Baseline Study of Bankruptcy Cases.** Section VI(B) obligates FILE to conduct a baseline study of bankruptcy cases by December 8th. During the reporting period, FILE began scheduling meetings with court personnel to assess the state of recordkeeping with respect to cases involving bankruptcy-related matters. Based on these meetings, the team will create a survey form, the intent of which will be to collect baseline data on the numbers of cases pending and in the bankruptcy process, the numbers of enterprises in the process, and the nature of the proceedings.

World Trade Organization Accession

1. **Background.** WTO accession is a top priority for BiH. WTO membership will help BiH in reconstructing its economic infrastructure and systems and in achieving economic stability. Membership will also promote an atmosphere conducive to further reform necessary for BiH’s continuing transition to a market-based economy.

BiH’s Application for WTO Membership was received on May 11, 1999, and the Working Party established on July 15, 1999. BiH submitted its Foreign Trade Memorandum to the WTO Secretariat in Geneva in Fall 2002. The WTO posed a series of questions to BiH, to which BiH responded in August 2003. Also in August 2003, BiH submitted information to the Working Party on accession regarding the implementation of trade-related aspects of intellectual property rights (TRIPS), a checklist of illustrative technical barriers to trade issues, and information on policy measures affecting trade in services. The next Working Party meeting is scheduled for November 7, 2003, with a subsequent meeting tentatively scheduled for January 2004.

A central activity of FILE’s WTO component is to assist the BiH government in identifying

areas of compliance and non-compliance in the country's trade regime vis-à-vis WTO obligations. This activity calls for examining the entire range of commitments and obligations required to be made or undertaken in connection with accession to the WTO. To fully assess the current status, FILE will need ongoing access to documentation and personnel relevant to the accession process. FILE's access and activities are limited by USAID-established parameters: (1) FILE cannot participate or offer opinions in the course of BiH's diplomatic negotiations concerning WTO accession; (2) opportunities for expert technical consulting in the various WTO disciplines must be discussed with and approved by USAID/Bosnia/ERO; and (3) meetings with Ministry officials are to be conducted through USAID. While these parameters may, at times, slow the exchange of information, FILE understands their necessity and can work within the established framework.

2. Activities.

a. **Meetings with appropriate Ministry officials.** Section VI(C) of the TO required FILE to meet with Ministry officials responsible for WTO accession and reach agreement on the future provision of technical assistance. FILE and USAID representatives met on September 19th with members of BiH's WTO accession team, including Seadata Ceric, Assistant Minister of BiH's Ministry of Foreign Trade and Economic Relations. It was clear from this discussion that the accession team did not desire general accession advice, but instead required targeted assistance in identified areas of concern. Specific requests included: (1) expert technical consulting concerning agricultural and TRIPS issues; (2) guidance on how to respond to further questions and inquiries from other States; (3) procedural assistance in accession, including financial assistance for publication of accession-related materials to promote the dissemination of information to interested parties; (4) technical and/or financial assistance for translation of various documents and interpretation at certain meetings; and (5) expert technical consulting in "coaching" team members on accession negotiations.

USAID and FILE agreed to take such requests under advisement, pending further discussions and receipt of documents and reports that would supplement and support the accession team's requests. FILE understands, based upon conversations with USAID, that USAID is currently vetting the nature and scope of potential FILE assistance. Once the vetting is complete, USAID will provide FILE with further instruction on how to proceed with the accession team's request. Currently, USAID has requested that FILE explore the availability of a short-term technical expert to provide targeted assistance in preparing BiH's delegation for the Working Party meeting tentatively scheduled for January 2004. FILE is currently reviewing the availability of candidate experts to provide four to six weeks of assistance between late November 2003 and January 2004. FILE and USAID will otherwise continue their dialogue to determine the appropriate level and timing of assistance.

b. **Assessment of Accession Status and Recommendations.** Section VI(C) of the TO further required FILE to conduct an assessment of the current status of BiH's WTO accession and issue a report and recommendations concerning how best to proceed to help ensure BiH's accession as quickly as possible. This deliverable result was due on October 3, 2003. The assessment was submitted on October 3rd via e-mail pursuant to USAID's request.

Court Administration

1. **Background.** Recognizing the need for commercial courts, and as part of the judicial reforms undertaken and led by the IJC, sixteen commercial divisions will be established in first instance courts - ten in the Federation, five in the RS, and one in the Brcko District municipal court. In addition, the number of first instance courts in Bosnia will be reduced from a total of 78 to 46 courts, with six branch courts or additional locations for periodic court sittings. The new Commercial Divisions of the first-instance courts “will hear cases that require expertise in the area of commercial law originating anywhere in the relevant Canton (Federation) or District (RS).” While remaining within the organizational framework of the first instance courts, and sitting in the same offices as other first instance judges, the judges in the Commercial Divisions will hear cases concerning, among other things, bankruptcy, business contracts, commercial real estate, and intellectual property. This specialization should accelerate the judges’ accumulation of knowledge and experience in these matters.

2. **Activities.**

a. **Meetings with appropriate Ministries, Courts, and other Institutions.** Pursuant to Section VI(D) of the TO, FILE was required to meet with appropriate Ministries, courts and other institutions (HJPC, IJC, etc.) responsible for court administration and case management and agree upon the provision of technical assistance. This deliverable result was expected by September 23rd. During the reporting period, FILE met with the Federation Ministry of Justice, OHR, IJC, ICITAP, EU and others to determine the nature of their court administration activities and discuss the parameters of FILE’s potential technical assistance. Such meetings included participation in the donor-driven court administration working group, at which various donor organizations and their implementing partners describe their initiatives and loosely coordinate activities. It is clear from these meetings that several projects have overlapping goals and deliverables, as well as the desire to preserve their mandate and independence. FILE will continue to participate in formal working group meetings and to meet independently with various project members and local stakeholders to establish an ongoing dialogue, promote cooperation, and ensure that FILE’s future procurement and training efforts are coordinated with the efforts of others.

b. **Development of a detailed workplan for the period ending December 31, 2003.** Section VI(D) of the TO obligates FILE to submit a detailed court administration workplan for the designated period by October 8, 2003. During the reporting period, the FILE team participated in an intensive team-building and workplan-drafting session. Session outcomes included the identification and elucidation of specific, targeted activities aimed at improving BiH’s court administration systems, as more fully described in the workplan.

c. **Preparation of Preliminary Report on Hardware and Software.** Section VI(D) further requires FILE to prepare a preliminary report on the types, specifications, numbers, and costs of hardware and software required to automate courts. IJC conducted an initial survey of the current status of court automation in BiH. Their report represents a starting point for determining the nature and scope of equipment to be provided, but significant work is required to validate and expand upon their research. For example, the report lists the number of “useable” computers in various courts without defining the term or stating the specifications of the enumerated computers. Thus, it is impossible to tell whether the computers can run the case filing and tracking applications currently

being designed by IJC and ICITAP, or could run other applications designed by other reform implementers. During the reporting period, FILE began to validate IJC's survey data in selected representative courts and determine the additional information required to make IJC's survey more user-friendly.

FILE's plan to supplement IJC's survey data is also necessary to provide sufficient information to adequately prepare a Preliminary Report on the types, specifications, numbers and costs of the hardware and software required to automate the courts. It is important to note, however, that the procedures and practices for which hardware and software will be procured are still unidentified. FILE recommends that hardware and software specifications be reported once there is greater certainty about the underlying procedures and practices to be automated and the applications being designed.

Similarly, training on hardware and systems is premature before procedures and practices are in place. Many of the procedures and practices relevant to the operation of court automation equipment and software are to be contained in the Law on Courts and the Book of Rules, which are still being revised by the IJC. Further procedures and practices are to be developed by USAID's Justice Sector Development Project, which will not come online for months. FILE recommends that training be delayed until there is greater certainty of what procedures and practices will be put in place (and when).

In the interim, FILE and USAID have discussed certain other work that FILE can undertake in preparation for automation of the courts. As previously mentioned, many of the procedures and practices relevant to the operation of court automation equipment and software will be contained in the Law on Courts and the Book of Rules. IJC requested FILE to review and comment on the drafts, and FILE began its review during the reporting period.

d. Report on Removing Small Commercial Claims. FILE is further tasked with preparing a report on developing the legal and regulatory framework to remove current and future "small commercial claims" from the commercial divisions. This report is due November 7, 2003 in accordance with Section VI(D) of the TO. FILE believes that it is premature to fully assess the legal and regulatory framework for small commercial claims in advance of the establishment of the commercial divisions. FILE understands that subject matter jurisdiction of the commercial division courts is still under review, and the exact nature of cases to be transferred to these courts, and dates of transfer, remain unclear. Significant preliminary data related to the eventual report will be gathered during the coming months as FILE works diligently towards the deliverable result.

e. Report on Developing the Legal Framework for CDR; Public Education Campaign. FILE is required to prepare a detailed report on developing the legal and regulatory framework for Commercial Dispute Resolution (CDR) and to design and begin implementation of a public education campaign about CDR. This deliverable result is due November 24, 2003.

A mediation working group is currently drafting a mediation code that, if enacted, could provide the necessary legal framework for CDR. During the reporting period, FILE met with both local and international members of the working group to discuss the status of their efforts and contemplated

activities for the coming year. FILE also began to assess the possibility of partnering with the working group on certain activities, such as the design of a public information campaign. FILE believes, however, that conducting such a campaign is premature until adoption or imposition of the mediation code is at hand. FILE further believes that its efforts should be coordinated with the working group to best leverage available technical and financial assistance.

C. Start-Up Activities

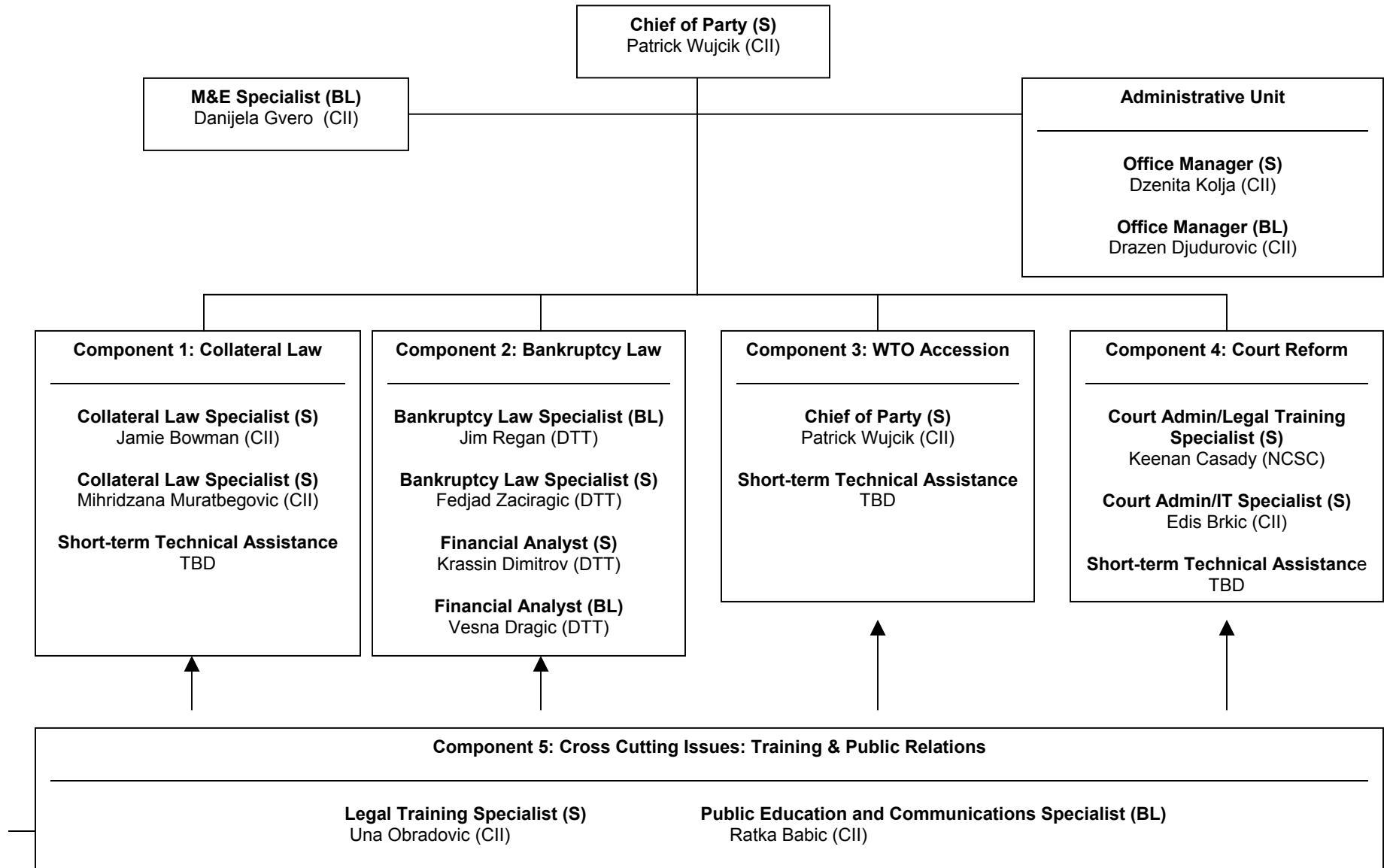
1. **Staffing.** *As part of the project start-up process, FILE assembled and mobilized its project team. The project team will provide programmatic coverage throughout BiH from its field offices in Sarajevo and Banja Luka. The Sarajevo office will be staffed by: two expatriate attorneys (Patrick J. Wujcik, Chief of Party, and Jamie Bowman, collateral law specialist); an expatriate court administration specialist (Keenan Casady); an expatriate financial analyst (Krassin Dimitrov); four Bosnian attorneys; and several Bosnian support staff. The Banja Luka office will be staffed by an expatriate attorney (James Regan, bankruptcy law specialist), three Bosnian specialists and several support staff. A project staffing plan is attached as Annex I. All key personnel were selected and in place, with minor exceptions, by the end of the reporting period. Similarly, all issues relating to the transfer of certain personnel from other international organizations to FILE were amicably resolved.*

2. **Team-Building; Workplan Drafting Session.** *From September 22nd to 25th, FILE held a successful team-building and work-planning session for team members. The purposes of the workshop were to introduce team members, to review office and Chemonics strategy and structure, to review orientation and management principles, and to develop a draft workplan. Part of the session was attended by Caroline Brearley, who reinforced USAID's needs and expectations for the project.*

3. **Office Space.** During the reporting period, FILE located permanent office space in Banja Luka and temporary space in Sarajevo. FILE's Banja Luka office is located on Prvog Krajiskog korpusa. Its temporary offices in Sarajevo are located in USAID's Business Finance (BF) offices. FILE also visited a number of potential office sites and expects to locate permanent space in Sarajevo on or before December 1, 2003.

4. **Procurement.** FILE purchased furniture for its Banja Luka office during the reporting period. It is currently utilizing BF furniture in Sarajevo and will procure furniture when permanent space is selected. FILE also began procuring computer equipment for its two field offices, though source/origin issues will result in procurement from the US. As such, the equipment is unlikely to be delivered until November.

FILE Project - Staffing Plan



J. Support to Enhance Privatization, Investment and Competitiveness in the Water Sector of the Romanian Economy, TO#822

Start Date: August 4, 2003

End Date: August 13, 2006

Amount of Delivery Order: \$4,055,796.00

This project is currently undergoing start-up activity.

K. Kosovo Energjetike e Kosoves (KEK) Institutional Strengthening, TO#823

Start Date: August 1, 2003

End Date: July 31, 2004

Amount of Delivery Order: \$899,992.00

ACTIVITY PURPOSE: To support the ongoing implementation and full utilization of the Customer Care Package (CCP) and Joint Billing (JBI) Initiative.

PLANNED ACTIVITY RESULTS

1. Full Integration and Utilization of CCP in the “KEK – Yes” Action Plan – Assist KEK distribution management with monitoring and evaluating internal controls, and ensuring proper integration and utilization of the CCP system in the initiative.
2. Full utilization of CCP Software – Through close contact with KEK Distribution District managers and their field teams promote field initiatives supportive of increasing collections while identifying patterns of abuse.
3. Increased ability of KEK management to improve collection rates – Provide management with lessons learned from implementation of CCP in the seven districts, integrating the CCP accounting system into KEK’s financial operations and providing other technical and analytical assistance to help KEK improve collections and collection rates.

INTERMEDIATE RESULTS & INDICATORS SUPPORTED:

SO 3.1 Restored Normalcy in Living Standards and Opportunities

- Number of individuals having improved access to basic utility services

IR 3.1.1 Improved sustainability of social services and community infrastructure

- Increased % of the community populations connected to public utilities (listed)
- Percentage of energy billed or invoiced
- Improved collection rates for utilities

ACCOMPLISHMENTS DURING REPORTING PERIOD

1. Trained each district accounting personnel to make proper “Daily Payment Report”
 - Implemented procedure for daily cash collection report
 - Implemented procedure for suspense accounts and bank transfer payments
2. Cleansed customer database of passive and disconnected customers to improve database control
 - Started process of setting up meter route in each district where passive customers have moved
 - Started process of setting up names for meter routes and placing customer in proper order on meter route
 - Started process of association of billing groups with meter route
 - Assisted KEK Yes in speeding up the process of customer service data entry into CCP system
3. Continued to update Operational Diagnostics for districts
 - Operational Diagnostic helps district managers to see how many debtors is located in each tariff category
 - Evaluating debtors help districts to allocate their resources for disconnection processes
4. Continued to update operational, financial and commercial reports for KEK distribution division
 - These reports are supporting KEK distribution and its districts to evaluate weaknesses in daily work and point distribution/district managers to critical subjects as weaknesses in billing, collection, or in improving situation with commercial losses

IMPACT of ACCOMPLISHMENTS

1. Improved customer database – KEK districts inserted 40,000 customer service contracts into CCP during September. This is 25% of all customer service contracts.
2. Each district set up management committee to evaluate passive customers – burned or demolished houses, customers who moved out of region, etc.
3. In the past, incorrect reporting and recording of corrections caused accounting error of 30 million euros. During the last 12 months, the accounting errors are approximately 3 million euros. Consistence and transparent reporting will eliminate these errors.
4. Improper registration or reporting of bank payments and bank transfer payments caused some of the customers to be disconnected for non-payment. There are still payments where it is difficult for KEK district to allocate payee. This process needs cooperation among customers and KEK financial staff.

5. Operational, financial and commercial reports can help districts in improving billing and cash collection.
6. Evaluation of billing, particularly low bills for commercial customers helps KEK begin to eliminate abuses from meter reading employees.

MAJOR PLANNED ACCOMPLISHMENTS (OVER NEXT 12 MONTHS)

1. Provide continuous support in full utilization of the Customer Care Package
2. Improve cash collection to 60% by direct assistance to KEK distribution division and its district
3. Provide operational, financial, and commercial reports that will help KEK management to decrease commercial losses, improve customer billing and cash collection
4. Assist KEK distribution division and all its districts in developing unified and consistent reporting system that will be fully transparent.
5. Continuously oversee CCP system in all districts to identify patterns and causes of billing and payments abuses
6. Provide management support to KEK
7. Assist in smooth implementation of joint billing (only if decided)
8. Ensure utilization of CCP software for decreasing of commercial losses

L. Columbia Forestry, TO#824
Start Date: August 11, 2003
End Date: August 10, 2006
Amount of Delivery Order: \$22,700,000.00

This project is currently undergoing start-up activity.

M. Paraguay Poverty Reduction, TO#825
Start Date: August 12, 2003
End Date: August 11, 2006
Amount of Delivery Order: \$3,989,507.00

This project is currently undergoing start-up activity.

N. Increasing the Development Impact of Economic Growth Paradigms, TO#014

Start Date: September 25, 2003
End Date: September 30, 2004
Amount of Delivery Order: \$383,099.00

This project is currently undergoing start-up activity.

II. Proposal Activity

A. Proposals Won

1. Columbia Forestry
2. Paraguay Poverty Reduction
3. Morocco Economic Opportunities
4. Kosovo Energjetike e Kosoves (KEK) Intuitionnal Strengthening
5. Increasing the Development Impact of Economic Growth Paradigms
6. Support to Enhance Privatization, Investment and Competitiveness in the Water Sector of the Romanian Economy

B. Proposals Lost

1. Columbia Enterprise Development
2. Mozambique Business Associations
3. Romania PRIDE
4. Indonesia GIAT
5. Bosnia PRIDE
6. Bulgaria Commercial Law Reform

C. Proposals Not Submitted

1. Support for Trade Facilitation and Capacity Building Through Reduced Transaction Costs at International Borders
2. Building a Palestinian Information and Communications Technology Incubator West Bank/Gaza

D. Proposals Pending

1. Increasing the Business and Investment Climate in Nicaragua
2. Strengthening Competitiveness of Private Enterprise in Uganda

III. Contract Quarterly Financial Report

This information is included in Annex A of the report.

IV. Technical Reports and Deliverables

1. Support to President's Council, TO #804
 - A. Trade and Investment Dashboard – US-Egypt Business Council
 - B. Quarterly Update – September 2003
 - C. Activity Report for U.S. – Egypt Business Council –September 2003
2. Technical Support for Procurement and Project Management and Private Sector Participation (PSP) to the Ministry of Water and Irrigation, Water Authority of Jordan and the Jordan Valley Authority, TO #814
 - A. Aqaba Water Company: Organization and Staffing Plan and Accompanying Job Descriptions
 - B. Billing and Collection Systems for the Aqaba Water Company
 - C. Aqaba Water Company Training Needs Assessment And Standard Operating Procedures
 - D. Financial Management in AWC: Strategy and Activities for Implementation
 - E. Terms of Reference Aqaba Water and Wastewater
3. East and Central Africa Global Competitiveness Hub, TO#819
 - A. Close out Report, September 16, 2002-September 15, 003

ANNEX A

General Business, Trade & Investment IQC
Quarterly Financial Report

| Task Order Number/Name | Authorized Expenditures (Obligated) | Actual Expenditures Through 9/30/2003 | Balance | Estimated Completion Date | N/A | Balance In Days (LOE) |
|---|-------------------------------------|---------------------------------------|----------------|---------------------------|-----|-----------------------|
| TO #804 Egypt Presidents' Council | \$1,352,436.00 | \$1,031,075.37 | \$321,360.63 | 12/31/2004 | N/A | 550.62 |
| TO #811 Ukraine Land Systems Initiative | \$11,408,975.00 | \$8,867,730.00 | \$2,541,245.00 | 9/19/2005 | N/A | 30408 |
| TO #813 Tanzania Tax and Mining Policy | \$1,629,987.00 | \$1,145,508.88 | \$484,478.12 | 12/31/2003 | N/A | 508 |
| TO #814 Technical Support for Procurement and Project Management and Private Sector Participation in Jordan | \$3,026,846.50 | \$2,233,583.93 | \$793,262.57 | 1/31/2004 | N/A | 1500 |
| TO #815 Moldova Financial Management Training and Advisory Activity (FMTAA) | \$2,212,579.00 | \$1,675,440.00 | \$537,139.00 | 3/31/2004 | N/A | 190 |

| Task Order Number/Name | Authorized Expenditures (Obligated) | Actual Expenditures Through 9/30/2003 | Balance | Estimated Completion Date | N/A | Balance In Days (LOE) |
|---|-------------------------------------|---------------------------------------|-----------------|---------------------------|-----------|-----------------------|
| TO #820 Bolivia Trade and Competitiveness Hub | \$4,500,000.00 | \$1,224,522.20 | \$3,275,477.80 | 12/21/2004 | N/A | 3909 |
| TO #821 Bosnia FILE | \$9,964,761.00 | \$0.00 | \$9,964,761.00 | 9/30/2006 | N/A | 7188 |
| TO #822 Support to Enhance Privatization, Investment and Competitiveness in the Water Sector of the Romanian Economy | \$960,000.00 | \$0.00 | \$4,055,796.00 | 8/13/2006 | N/A | 5761 |
| TO #823 Kosovo KEK | \$500,000.00 | \$67,427.00 | \$432,573.00 | 7/31/2004 | N/A | 1701 |
| TO #824 Columbia Forestry | \$2,500,000.00 | \$0.00 | \$22,700,000.00 | 8/10/2006 | N/A | 8307.1 |
| TO #825 Paraguay Poverty Reduction | \$965,000.00 | \$0.00 | \$3,989,507.00 | 8/11/2006 | N/A | 8286 |
| TO #14 Increasing the Development Impact of Economic Growth Paradigms | \$383,099.00 | \$0.00 | \$383,099.00 | 9/30/2004 | N/A | 159 |
| TO #1 Office of Emerging Markets | \$50,000.00 | \$0.00 | \$50,000.00 | | 9/30/1999 | N/A |

| Task Order Number/Name | Authorized Expenditures (Obligated) | Actual Expenditures Through 9/30/2003 | Balance | Estimated Completion Date | N/A | Balance In Days (LOE) |
|---|-------------------------------------|---------------------------------------|--------------|---------------------------|------------|-----------------------|
| TO #3 Macedonian Business Resource Center | \$1,905,944.00 | \$1,898,784.84 | \$7,159.16 | | 5/31/2003 | N/A |
| TO #4 Competitiveness Study | \$40,000.00 | \$36,654.10 | \$3,345.90 | | 12/14/2001 | N/A |
| TO #800 Guinea Ag Loan Guarantee | \$49,684.00 | \$49,705.50 | -\$21.50 | | 7/30/1999 | N/A |
| TO #801 Guinea Ag II | \$77,336.87 | \$74,427.12 | \$2,909.75 | | 9/17/1999 | N/A |
| TO #802 Ukraine Business Incubator | \$75,628.00 | \$72,543.37 | \$3,084.63 | | 11/17/1999 | N/A |
| TO #803 Angola Evaluation of mission's 7-Year Strategic Plan | \$35,700.00 | \$35,700.00 | \$0.00 | | 11/3/2000 | N/A |
| TO #805 Nigeria Macroeconomic Policy | \$1,995,020.00 | \$1,945,870.95 | \$49,149.05 | | 11/9/2001 | N/A |
| TO #806 Ukraine Alternative Fuels | \$65,290.00 | \$62,054.78 | \$3,235.22 | | 4/30/2000 | N/A |
| TO #809 Activity Management Services in Agadir | \$1,656,868.00 | \$1,491,941.00 | \$164,927.00 | | 7/14/2002 | N/A |
| TO #810 Guinea Revalidation of Mission's 7 year Strategic | \$189,553.00 | \$188,116.55 | \$1,436.45 | | 10/31/2001 | N/A |

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|--|---|--|-------------|---------------------------------|------------|--------------------------------|
| Plan | | | | | | |
| Task Order Number/Name | Authorized Expenditures (Obligated) | Actual Expenditures Through 9/30/2003 | Balance | Estimated Completion Date | N/A | Balance In Days (LOE) |
| TO #817 Bangladesh Competitiveness Study | \$218,205.00 | \$172,500.04 | \$45,704.96 | | 12/27/2001 | N/A |
| TO #818 Eritrea Economic Growth and Food Security Sector Assessment | \$200,748.90 | \$200,748.90 | \$0.00 | | 10/15/2002 | N/A |
| TO #819 East and Central Africa Global Competitiveness Hub | \$1,499,933.00 | \$1,488,447.28 | \$11,485.72 | | 9/15/2003 | N/A |